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THIRTY-SEVENTH BIENNIAL REPORT

FROM THE

OFFICE OF STATE TAX COMMISSIONER

KENT CONRAD

TO THE

Governor and the Office of Management and Budget

STATE OF NORTH DAKOTA

For the Biennial Period July 1, 1983, to June 30, 1985

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NORTH DAKOTA TAX DEPARTMENT
STATE CAPITOL, BISMARCK, NORTH DAKOTA 58505

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December 1, 1985

To: The Honorable George A. Sinner, Governor
Mr. Richard Rayl, Director of Office of Management and Budget

It is with great pleasure that I submit for your consideration the Thirty-seventh Biennial Report of the Tax Commissioner.

The report covers the operations of the Office of the Tax Commissioner for the period July 1, 1983, through June 30, 1985, and is submitted pursuant to Sections 54-06-04 and 57-01-02 of the North Dakota Century Code.

Sincerely,

Kent Conrad

Kent Conrad
North Dakota Tax Commissioner

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This report was prepared by Tax Commissioner Kent Conrad with the assistance of staff members Dennis Barnhardt, Sid Bender, Maureen Gerl, Gretchen Ryan and Kathy Strombeck.

SUMMARY OF TAX DEPARTMENT EFFORTS TO IMPROVE SERVICE AND PRODUCTIVITY

The 1983-85 biennium presented many new challenges for North Dakota and the State Tax Department. While most of the nation enjoyed a recovery from the 1982 economic recession, North Dakota's economy has continued to move in and out of recession. Farm commodity and oil prices, the key elements of our economy, remain depressed. The low commodity prices are a result of the overvalued dollar created by high real interest rates which in turn result from massive federal budget deficits.

The weakened condition of our state economy has begun to take its toll on state government. In order to hold the line on taxes, the Governor and the Legislature slashed government spending at nearly all levels. Government agencies have responded by squeezing more productivity from each dollar spent as the desire to improve services clashed with reduced funds. The following is a summary of the activities undertaken during the 1983-85 biennium by the Tax Department to improve productivity and enhance the revenue of the state.

RECORD AUDIT RESULTS

During the 1983-85 biennium, the Tax Department collected $38.5 million in audit related collections. This performance established a new record for audit collections in North Dakota, more than doubling the previous biennium's total of $18 million, which was also a record.

Corporate audit collections were the largest contributor to the sucess of the audit program. Total collections from this section were $22.1 million. This amount includes record settlements of $6.8 million, $1.65 million, $1.6 million, $1.2 million, and numerous other smaller audit collections. The State's cost for the corporate audit program was $640,000. Thus, North Dakota's rate of return on those audits was $35 for every dollar invested. In addition, audit activity produced $7.5 million in sales tax revenue, $5.9 million in oil and gas tax revenue, $3.0 million in individual income tax revenue.

The enviable achievements of the Department's audit operations reflect a continued improvement in audit efficiency and selection.

A direct result of this improved performance is that honest North Dakota taxpayers are paying less in taxes, since without these audit collections, North Dakotans would have faced a 30% increase in corporate income taxes or a 25% increase in individual income taxes.

STATE AUDITOR'S REPORT

In January 1985 the State Auditor's Office completed its examination for the years ended June 30, 1983, and 1984. In this audit report the auditor commended the Tax Department "for the excellent financial statements it prepared." Further, there were no formal recommendations for changes in Tax Department operations in the Auditor's Report for 1983 and 1984.

COMPUTER SYSTEM CHANGES

The Tax Department has engaged in a plan to update and expand its present systems and adopt new techniques in information processing. Conversion to database systems has and will continue to improve the quality of data through direct access and input capability. With the enhanced capability to extract data directly, research time will be greatly reduced, thus securing additional time for revenue generating activity.

Conversion of the corporate income and motor fuel tax systems to database was started during this biennium and the corporate conversion has since been completed. Conversion of the oil and gas system was started and completed during the biennium. Conversion of the sales tax system was accomplished in the previous biennium.

In addition, city sales tax capability was incorporated into the existing state sales tax system to allow processing and collection of city sales taxes for those cities that adopt such taxes. The system also will be used to certify back to the specific cities the taxes collected by the Tax Department on their behalf.

The Tax Department is in the process of installing a network of micro computers in each of its divisions. Once completed, this system will vastly improve the productivity of the Department through the use of word processing, electronic spreadsheets and graphics, electronic data base management systems, and micro to mainframe communications.

TAXATION OF MULTISTATE AND MULTINATIONAL CORPORATIONS

During the 1983-85 biennium, Commissioner Conrad continued his efforts to prevent national legislation from threatening the sovereign right of states to determine their own tax policy. Also during the 1983-85 biennium, Commissioner Conrad was appointed by President Reagan to a bipartisan commission to study state methods of taxing multistate and multinational corporations. The Commissioner has strongly opposed legislation before Congress to restrict the manner in which states are allowed to tax multinational corporations.

In 1984, the commission issued its report recommending that states move from a worldwide unitary approach to taxation in favor of a "water's edge" method. Under this method, the states would continue to use a unitary approach to taxation but would limit the scope of this method to exclude foreign parent corporations. In return for this concession, multinational corporations would have to file a domestic disclosure spreadsheet which would show how they file their tax returns in all states with a corporate income tax. The agreement would also require Congress to appropriate $50,000,000 per year for increased audit resources of the IRS for review of international transactions.

INDIVIDUAL INCOME TAX RETURNS PROCESSING

In these days of severe economic hardship and declining state revenues, it has become imperative that state government extract as much productivity from existing resources as possible. Thus, under the direction of Commissioner Conrad steps were taken to maximize the efficiency of the income tax processing operation. The result was that North Dakota, for the second straight year, was the first state in the nation to complete the processing of timely filed income tax returns. North Dakota also led the nation in the issuance of refunds on timely filed income tax returns to the state's taxpayers. This year's record performance bested even last year's record performance by nearly a week.

Of course the benefit the state gains from rapid income tax return processing is an earlier deposit of those funds and consequently a great accrual of interest on those moneys.

THE FAIR SHARE PROGRAM

In 1983, the Legislature responded to a significant revenue shortfall by enacting into law a proposal by Commissioner Conrad that would create a "Fair Share" program to better enforce compliance by all taxpayers.

Under this program, the Legislature appropriated $960,000 for additional audit positions and travel money in the Tax Department. In return, Commissioner Conrad promised that this investment would yield $10,000,000 in increased tax collections by the end of the 1983-85 biennium. The Legislature agreed that a 10.5 to 1 return is good on any investment. The actual return on this investment was even a better ratio. By the end of the biennium, total collections under this program were more than $14,000,000, over $4 million more than the program's goal and more than a 14 to 1 return on the original investment.

The success of this program demonstrates that there is a significant return on this state's investment in audit activity.

COLLECTION OF DELINQUENT TAXES

During the past few years, the rate of growth in the Tax Department's accounts receivable became a concern. To stem the tide of this growth and reduce the delinquent accounts to an acceptable level, Commissioner Conrad instituted a hearings process throughout the state whereby the department called delinquent taxpayers to hearings before an assistant attorney general to make arrangements to pay overdue taxes.

This "Courthouse hearings" project was initiated in May of 1985. Between then and the end of the biennium June 30, 1985, approximately 1,241 delinquent taxpayers were notified to either pay in full, arrange an acceptable payment schedule, or appear at courthouse hearings (held in Grand Forks and Fargo) to explain why settlement hadn't been arranged.

Of the 1,241 notified, more than 90% paid in full or committed to an acceptable payment plan. Those who did not respond satisfactorily to this informal hearings process were notified that they are subject to legal action.

The hearings process is good for the taxpayers as well as the state in that it avoids complicated and expensive legal actions. The hearings process was scheduled to cover the entire state by the end of the calendar year.

TAX AMNESTY

On September 1, 1983, Commissioner Conrad announced the beginning of a two-month tax amnesty program. Under this program, delinquent taxpayers who had not previously been contacted by the Department about their tax delinquency were granted immunity from criminal or civil penalties if they filed returns and paid the taxes for the years in which the taxes were owed. Interest on the back taxes was not forgiven, however.

The response to this program was sufficiently strong that it was extended for 30 days. Approximately 200 tax filers used this opportunity to clear up their delinquent tax obligations.

No additional costs were incurred to administer this program and, in fact, it produced revenue that might otherwise have been lost. It is estimated that at least $100,000 of revenue will be recovered as a result of this program. It is impossible to know what future benefits may accrue from having these taxpyaers become a permanent part of the state's tax base.

Amnesty filers were from all age groups and economic strata. The majority did not have state income tax withheld. Two major reasons for failure to file were the lack of financial resources to pay the tax, and traumatic family problems which outweighed all other priorities for the taxpayer.

TAX PROTESTORS

The presence in North Dakota of what has become known as the tax protestor movement continues to be of concern to Commissioner Conrad. However, it is apparent to the commissioner that over the last few years, this type of protest activity has diminished as a result of effective enforcement procedures.

During the biennium, the Tax Department brought eight criminal actions against tax protestors. Recently, the North Dakota Supreme Court affirmed the criminal conviction of one tax protestor.

POWERS AND DUTIES OF THE TAX COMMISSIONER

1. Shall perform all the duties enjoined upon him by law;

2. Shall exercise general supervision over all assessors of general property or other taxes, over township, county, and city boards of equalization and over all other assessing officers, in the performance of their duties, to the end that all assessments of property be made relatively just and equal in compliance with the laws of the state;

3. Shall direct actions and prosecutions to be instituted to enforce the laws relating to the penalties, liabilities, and punishments of persons, officers of corporations, public officers, and others, for failure or neglect to comply with the provisions of law governing the returns, assessments, and taxation of property, income, or other objects of taxation, cause complaints to be made against officers for neglect or refusal to comply with the law, and generally shall enforce all tax proceedings and revenue laws of the state in the proper courts;

4. May require state's attorneys of the several counties to assist in the commencement and prosecution of actions and proceedings for the violation of any laws in respect to assessment or taxation;

5. May require township, city, county, and other public officers to report information as to the assessment and collection of property and other taxes, receipts from licenses and other sources, the expenditure of public funds for all purposes, and such other information as may be needful in the administration of the tax laws, in such form and upon such blanks as he may prescribe;

6. May summon witnesses to appear and give testimony and produce books, records, papers, and documents relating to any matter which he or the state board of equalization may have authority to investigate or determine, and may cause the depositions of witnesses residing within or without the state, or temporarily absent therefrom, to be taken, upon notice to the interested parties, if any, in like manner as depositions of witnesses are taken in civil actions in the district court;

7. May require a reassessment of property in any county to be made in accordance with chapter 57-14, whenever that is deemed necessary, or may require county auditors to place on the assessment rolls property which may be discovered and which has not been taxed according to law.

8. Shall examine carefully all cases where evasions or violations of the laws of assessment and taxation of property or other objects or subjects of taxation are alleged, complained of, or discovered, and shall ascertain wherein existing laws are defective or are administered improperly or negligently;

9. Shall submit to the governor and the office of management and budget as prescribed by section 54-06-04 the biennial report of the commissioner and state board of equalization;

10. Shall visit other states and confer with taxing officials and attend tax or other economic conferences or conventions, in person or by his authorized agent;

11. Shall certify all levies, assessments, equalizations, or valuations made by him or the state board of equalization, not more than thirty days after the same have been made, or at periods otherwise provided by law;

12. Shall have the power to execute reciprocal agreements with the appropriate officials of any other state under which he may waive all or any part of the requirements imposed by the laws or statutes of this state upon those who use or consume in the state of North Dakota, gasoline, other motor vehicle fuel or special fuel upon which the tax has been paid to such other state, provided that the officials of such other state grant the equivalent privileges with respect to gasoline, other motor vehicle fuel or special fuels used in such other state upon which the tax has been paid to the state of North Dakota;

13. May maintain an accounting system which includes a special category of accounts designated as noncurrent accounts. Said noncurrent accounts shall be those accounts which are uncollectible as a matter of law or those accounts where all reasonable collection efforts over a period of six years have produced no results. After examination by the state auditor, and upon his recommendation for cause, specific accounts may be removed by the commissioner from noncurrent status and all records pertaining thereto immediately destroyed.

Specific duties assigned to the office of State Tax Commissioner are set out in Title 57, N.D.C.C., and in Section 15-40.1-04, N.D.C.C.

MAJOR GOALS AND OBJECTIVES OF THE TAX DEPARTMENT

The primary mission of the Tax Department is to collect tax revenue necessary to fund the operation of state and local government, through the uniform and fair administration of North Dakota's tax laws. Accomplishment of this mandate requires the pursuit and achievement of several distinct goals simultaneously.

The first goal, and one which is essential to effective tax administration, is to obtain voluntary compliance with the tax laws of the State by all taxpayers. Disseminating information about specific tax laws and general tax structure serves to foster compliance; well-informed citizens generally are willing to meet their obligations. The Tax Department issues rules and regulations, guidelines, and instructional booklets. In addition, public meetings are held, and taxpayers receive individual assistance through personal contact, the telephone, and correspondence.

A second goal is to enforce compliance by those who refuse to voluntarily submit tax returns and/or remit taxes due. Compliance activities are carried out by the Department's auditors, compliance officers, field tax inspectors, and tax collections officers, under the procedures set out in Title 57 of the North Dakota Century Code.

Recognizing that the quality of service an agency provides reflects the competence of its personnel, the third goal of the Tax Department is to employ highly qualified, capable men and women and to afford them opportunities for personal and professional growth within the organization.

The fourth goal is effective management of human resources. Within the framework of the Department's broad objectives, individuals are encouraged to apply creativity and initiative in the performance of their responsibilities. In this environment, employees strive to attain self-determined objectives, which results in greater productivity and contributes to organizational achievement.

As a fifth goal, the Tax Department is committed to fiscal responsibility in the use of funds provided by the Legislature. In its efforts to minimize costs while maximizing productivity and quality of taxpayer service, the Department relies on a management system which emphasizes the necessity of realistic measurement of achievements and current reports of problems and progress in meeting the Department's objectives.

Specific goals, objectives, and accomplishments for the 1983-85 biennium will be addressed in the following pages which outline the Tax Department's organizational structure.

FUNCTIONS AND RESPONSIBILITIES OF THE TAX DEPARTMENT'S DIVISIONS

The Tax Department is comprised of six separate divisions. The Commissioner's Division is the administrative nucleus of the department. The Legal Division provides legal advice and counsel to the department and to the State Board of Equalization. The Controller's Division performs accounting functions, provides staff services and collects delinquent taxes. The Sales and Special Taxes Division, Income & Oil Taxes Division and Property Tax Division administer different state taxes under the direction of the Tax Commissioner. The following summaries provide more detailed explanations of the functions and operations of the Tax Department's divisions.

COMMISSIONER'S DIVISION

The Commissioner's Division has ultimate responsibility for the general administration of the department. It also serves as the department's primary research center, coordinates its data processing needs, manages its personnel functions, and directs internal audits of the department.

Directing the division and the Tax Department itself is the Tax Commissioner, the chief administrator of the department and final arbiter of its policies. The commissioner also serves on several administrative boards related to the Tax Department. As secretary to the State Board of Equalization, which certifies tax assessments for public utilities whose properties lie within several taxing districts, the commissioner is responsible for determining the tentative valuation of those properties. The commissioner also oversees regular studies of real estate assessments done by the Tax Department, studies which the State Board of Equalization may use in equalizing property tax assessments between counties and taxing districts.

Further, the Tax Commissioner is a voting member of the Multistate Tax Commission, an organization which enhances, through the mutual cooperation of its member states, the ability of state revenue departments to enforce compliance with tax laws applying to multistate businesses. Tax Commissioner Kent Conrad is a member of the Multistate Tax Commission and has the distinction of being only the second person to serve two consecutive terms as chairman of the MTC. Commissioner Conrad also is a member of the Midwestern States Association of Tax Administrators and the National Association of Tax Administrators.

Augmenting the commissioner in determining department administrative policy is the Deputy Commissioner. The deputy oversees tax research, data processing coordination, internal audits, implementation of tax policies, development of criteria for effective management, and supervises finalization of tax forms, instructions, and rules and regulations. With the commissioner, the deputy has control over budgeting and fiscal decisions for the department. The deputy assists the commissioner by attending meetings and hearings as the department's liaison with other government and nongovernment organizations.

An integral arm of the Commissioner's Division is the Research and Statistics Section. This section is involved in the preparation of revenue projections and other fiscal analyses. When requested by the Legislative Council, it prepares estimates and projections of fiscal implications of all proposed tax legislation dealing with state revenues. The section also estimates the current and future fiscal impact of all administrative rulings proposed by the Tax Commissioner, maintains files of legislation affecting state finance, and develops and maintains statistics on state tax revenues to provide information and analyses to the commissioner. In addition to its work on revenue projections and fiscal analyses, the Research and Statistics Section also prepares and publishes the biennial report of the Tax Commissioner, statistical reports, and comparative analyses of tax collections.

The workload of the Research and Statistics Section has expanded significantly in recent years, most notably in the areas of revenue projections and fiscal note preparation. Evolving into an ongoing process, revenue forecasting has assumed greater importance than ever before. Beginning in the 1981-83 biennium, with the depletion of the state's general fund, the policymakers demanded more information on the state's fiscal health. This need became even more critical during the 1983-85 biennium as the state's economic future continued to provoke grave concern. Without question, the importance of revenue forecasts will not diminish in the coming biennium as North Dakota continues to experience the effects of a sagging farm economy and depressed energy industry. Although the Office of Management and Budget has statutory responsibility for the state's official revenue forecasts, the Tax Department is asked to provide input and analyses. The official forecasts issued by the Office of Management and Budget assist the Legislature in finalizing the state budget for the succeeding biennium.

In addition to providing assistance to OMB in the preparation of revenue projections, the Tax Department is responsible for preparing fiscal notes on proposals which affect revenues resulting from the various taxes which the department administers. The responsibility for those fiscal note responses rests with the Research and Statistics Section. In addition to responses which must be prepared during the Legislative Session, the department prepares fiscal

note information for the Interim Committee on Finance and Taxation and responds to requests for fiscal information from individual legislators, businesses, and other government agencies.

Another element of the Commissioner's Division is the Data Processing Section, which evaluates data processing requests, retains computer system documentation, and designs, tests, and implements new computer systems. This section also maintains current data processing systems and communicates with all users; develops and monitors physical security measures; reviews security methods and recommends security changes; and controls access to Internal Revenue Service and state data files, data entry input and schedules, and production from computer systems.

The 1983-85 biennium was a period of significant achievement for the Data Processing Section. With the installation of state of the art hardware and software, a giant step was taken toward the long-range goal of implementing an information management network. As existing programs are converted to data base and new computer applications are developed, the overall efficiency and productivity of the Tax Department will be greatly enhanced.

Several refinements were made to existing computer programs during the 1983-85 biennium, including a corporate income tax simulation model used in fiscal analyses. The major system conversion during this biennium was that of oil and gas taxes. The new data base system allows on-line inquiry of all oil and gas production and purchase data. Through a suspense file, returns in error are corrected on-line which ensures accurate data on the master files. The 1985-87 biennium promises to be one of continued challenge and accomplishment for the Data Processing Section as other major files are converted to data base and the information management system is expanded and refined.

With the adoption of a city sales tax by the city of Grand Forks, modification of the sales tax data base system was required to provide a means of administering that tax. Changes incorporated into the system allow processing the tax information accurately and efficiently. The possibility of other home rule cities adopting a city sales tax points to the likelihood of further system refinements in the 1985-87 biennium.

Also within the Commissioner's Division is Management and Planning and Personnel, which is responsible for recruitment of new employees, operation of the department's training program, and compliance with Equal Employment Opportunity regulations. Management and Planning and Personnel also performs job audits and reviews position classifications, maintains employee records, and administers the department's wage and salary plan. Another of its responsibilities is to assist in department-wide planning by aiding each division in establishing objectives for management and determining criteria for the measurement of performance. Management Planning and Personnel also prepares written materials, maintains files, promotes security awareness and reviews department security measures to ensure the Tax Department complies with IRS requirements for safeguarding federally-provided tax information.

The Commissioner's Division also encompasses the department's internal auditing function. The internal auditor, who is supervised by the Deputy Tax Commissioner, conducts audits within the Tax Department to determine compliance with policies and procedures and to monitor the efficiency of all its divisions and sections. Subsequent to an audit, recommendations are offered to improve the operations and effectiveness of the department.

While it is not confined to the Commissioner's Division, another role within the Tax Department is to conduct studies assigned by the commissioner on matters and policies relating to tax administration. Among studies and reports during the 1983-85 biennium were *North Dakota: Where Taxes Work for People,* and *State and Local Taxes in North Dakota: A Comparative Guide.*

The Tax Commissioner is the public official responsible for administering and implementing changes in tax laws and for issuing, administering and monitoring all policies, rules and regulations related to those laws. A major goal for the 1985-87 biennium is to ensure that the new tax laws and the amendments to existing laws are carried out smoothly.

The Commissioner's Division in the 1983-85 biennium was comprised of 19 full-time positions which include the tax commissioner and deputy commissioner; an administrative officer; a personnel director and personnel assistant; two research analysts; an administrative clerk; an internal auditor; two data processing coordinators; a data input supervisor; five data input operators; and two secretaries.

LEGAL DIVISION

The Legal Division provides legal advice and counsel to all divisions within the Tax Department and to the State Board of Equalization. The division's attorneys respond to inquiries by the Tax Commissioner, legislators, officials and citizens and prepare opinions on tax questions. They also assist in reviewing and drafting department administrative rules pursuant to the provisions of the Administrative Agencies Practice Act and are responsible for these rules being submitted to the Attorney General for approval and being filed with the Legislative Council.

During the North Dakota legislative session, the legal staff develops and drafts bills for the Tax Commissioner to be presented for consideration by the Legislature. At the end of the legislative session, the legal staff may interpret new or amended laws to aid the department in implementing those laws or assist the commissioner in issuing rules, regulations or policies regarding them.

Other responsibilities of the legal staff are to conduct formal hearings before the commissioner or his designated representative when requested by taxpayers, to prepare written decisions for the commissioner, and to represent the Tax Department and the State Board of Equalization in litigation brought by or against either the department or the board.

During the 1983-85 biennium the Legal Division included six full-time positions: five attorneys and a legal assistant. The division handled 40 court cases that were brought against the Tax Department or the State Board of Equalization. In addition, the Tax Department, on the average, files approximately 15 legal cases a month against delinquent taxpayers.

CONTROLLER'S DIVISION

The Controller's Division of the Tax Department consists of three sections: Accounting, Accounts Receivable and Staff Services.

Acting as the department's center for business transactions, the Accounting Section prepares the Tax Department's executive budget request and assists with biennial revenue estimates. This section also prepares the department's internal budget, analyzes and forecasts expenditures, and monitors and reports on budget performance. All tax payments made to the department are processed and recorded by this section, which also prepares reports and financial statements for management information and auditing purposes. All records maintained by the Accounting Section are subject to audits by the State Auditor's Office. After the fiscal year 1983 audit of the Tax Department, the audit team stated during the closing conference that, in their judgment, the Tax Department is the "best run state agency." They indicated that they had no recommendations for change, either formal or informal. Again, after the audit completed in fiscal year 1985, there were no formal recommendations for change.

The Accounts Receivable Section is responsible for collecting delinquent taxes. Delinquent accounts are referred to this section for collection by the division of the Tax Department responsible for administering the tax. Established procedures used for the collection of delinquent taxes include telephone and written communication with taxpayers and the mailing of final notices requesting payment of taxes. If necessary, this section may resort to civil or criminal legal action. It is the policy of the Accounts Receivable Section to initiate legal action only in those cases in which the taxpayer fails to respond to collection attempts. Taxpayers are always given ample notice and opportunity to comply with requests for payment of taxes.

The Staff Services Section provides support services for the department. The mailroom receives and fills orders for tax forms, and receives, opens, and initially processes tax returns; the central word processing unit provides a typing and transcription service for all areas of the department, and produces camera-ready copy for tax forms and other printed materials; the central records repository provides a document control system to house tax records and ensure confidentiality of taxpayer information. Centralizing these functions within the Controller's Division increases efficiency in the operation of the entire Tax Department.

In the 1983-85 biennium, the Controller's Division included 32 full-time positions. Those positions include the controller, one accountant, one auditor, five tax collection officers, a tax collection supervisor, three account technicians, one composer technician, two clerk typists, one secretary, and 16 clerks.

SALES AND SPECIAL TAXES DIVISION

The Sales and Special Taxes Division includes three sections: Sales and Use Tax, Motor Fuels and Miscellaneous Taxes, and Estate Tax.

Administering the sales tax is the principal function of the Sales and Use Tax Section, which monitors compliance with the sales tax law and conducts field audits. This section issues sales tax permits, revokes permits of those delinquent in reporting sales, and cancels permits issued to businesses which are no longer operating. When sales tax returns are filed, data from those returns is entered at the Tax Department and processed by computer at Central Data Processing. The section may grant or deny taxpayer requests for exemptions; conduct hearings and negotiate settlements; issue administrative tax rulings; provide guidelines, rules and regulations for retailers and other taxpayers; review compliance with sales and use tax regulations in out-of-state purchases; and inform the public of laws pertaining to sales and use taxes.

During the biennium, the Sales and Use Tax Section implemented the collection of sales and use taxes from the largest accounts on a monthly basis and made revisions to the sales tax data base system which were necessary to administer the Grand Forks city sales tax.

For the 1983-85 biennium, North Dakota's state retail sales tax was 4 percent on the purchase price of most commodities, with food being the major exception. Farm machinery and irrigation equipment sales were subject to a sales tax of 3 percent. Sales tax is collected by businesses and remitted to the state. A bill was passed by the 1983 Session which provided for monthly deposits of sales tax collected by larger retailers and allowed those retailers compensation for collecting the tax. Monthly filing became effective July 1, 1983.

The monthly deposit of sales tax required those retailers whose taxable sales exceeded three hundred thirty-three thousand dollars for the preceding calendar year to remit monthly estimated payments of 95 percent of the tax due. The retailer was allowed to deduct 1.5 percent of the tax due as compensation for administrative costs incurred in monthly reporting, with a maximum deduction of $250 per quarter for each business location with a sales tax permit. Monthly deposits were due on the 22nd day of the following month. Quarterly returns continued to be required to reconcile the total sales tax due for that period.

The 1985 Legislature amended the law, effective July 1, 1985, to eliminate the monthly deposit system and quarterly reconciliations. In the coming biennium, retailers will be required to file monthly reports and remit monthly payments by the last day of the following month.

In the 1983-85 biennium, the Sales and Use Tax Section conducted 1,084 field audits of both in-state and out-of-state establishments doing business in North Dakota. Those audits resulted in additional sales tax assessments of $12,593,334, an increase of 28 percent over the previous biennium. Actual settlements of audits totaled $6,936,028 compared to $5,781,853 for the 1981-83 biennium. In total, 43,701 man hours were involved in the sales tax field audits for the 1983-85 biennium. Based on settlements, the return per audit man hour was $158.72. The Sales and Use Tax Section also conducts motor fuels tax audits and motor vehicle excise tax audits. In addition, the field auditors provide income tax assistance throughout the state during the income tax season.

A second arm of the Sales and Special Taxes Division, the Motor Fuels and Miscellaneous Tax Section, is responsible for administering, collecting and auditing fuel taxes, special taxes and miscellaneous taxes.

North Dakota imposes a motor fuels tax on all sales of gasoline. Effective July 1, 1983, this was increased to 13 cents per gallon. There is also a special fuels tax on certain other motor fuels, primarily diesel fuel. For the 1983-85 biennium, the special fuels tax was 13 cents per gallon if it was for use in licensed vehicles or if sold to public contractors performing public-funded contracts. If the special fuels are sold for heating, agricultural, industrial or railroad purposes, the special fuels tax is 2 percent of the purchase price of those fuels. Licensed dealers of gasoline and other motor fuels remit motor fuels taxes, on a monthly basis, to the Motor Fuels and Miscellaneous Tax Section.

This section also administers the motor fuels tax refund program. The refunds apply only to the gasoline tax and to special fuels taxes. Refunds are granted only to certain consumers, namely political subdivisions and farmers and industrial users who use the fuel to which the tax was applied for off-highway purposes, such as agricultural and industrial use other than public-funded contracts.

The motor fuels tax refund law was amended by the 1983 Legislature and beginning July 1, 1983, the amount of the refund was reduced by one cent per gallon. The refund reduction applies not only to agricultural users, but industrial users as well. The additional 1 cent per gallon withheld from refunds is used to fund township roads and bridges.

Other fuel taxes administered by this section include an importers-for-use tax collected quarterly from persons importing gasoline or diesel fuel from other states for use in North Dakota, and an aviation fuel tax levied on all sales of aviation gasoline and jet motor fuel. This section also administers the aviation fuel tax refund program.

In addition to fuels taxes, the Motor Fuels and Miscellaneous Tax Section administers several miscellaneous taxes: a copyright tax on gross receipts from all sales, licenses and other depositions of performing rights of music; and a tobacco products tax.

Other functions of this section include interpreting tax regulations and issuing administrative rules; reviewing, issuing and revoking licenses and permits, and responding to taxpayer questions. The Motor Fuels and Miscellaneous Tax Section also requests and reviews field audits by the sales tax field audit staff to determine compliance with tax laws for which it is responsible.

The third arm of the Sales and Special Taxes Division is the Estate Tax Section, which supervises North Dakota's tax on property transferred upon death. Major revisions to North Dakota's estate tax law by the 1979 Legislature considerably eased the complexities faced by this section. Under that legislation, which took effect March 16, 1979, North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. Specifically, the federal government allows a credit for state estate taxes paid, a credit which is applied against the federal estate tax. North Dakota law now provides that its state estate tax will be equal to but no more than the credit allowed on federal estate tax returns. In other words, the estate will pay no more in North Dakota estate tax than it would otherwise pay in additional taxes to the federal government. The 1983 Legislature amended the effective dates to provide compatability with provisions contained in the Economic Recovery Tax Act of 1981.

Under the revised law, the attorney for the estate is required to give the Estate Tax Section a copy of the federal estate tax return, which is verified to assure the federal credit is properly computed. The section also maintains estate tax records, and informs the public about estate tax laws, policies and procedures.

In the 1983-85 biennium there were 46 full-time positions in the Sales and Special Taxes Division. These included the sales and special taxes director, the supervisor of motor fuels and miscellaneous taxes, field audit supervisor, estate tax supervisor, three compliance officers, two field tax inspectors, 19 auditors and 18 clerks.

INCOME AND OIL TAXES DIVISION

The Income and Oil Taxes Division is responsible for administering the following principal taxes: the state's corporate and individual income taxes, the privilege tax on certain financial institutions, the oil and natural gas gross production tax and the oil extraction tax.

The division is comprised of three sections: Corporate Income Tax, Oil and Gas Taxes, and Individual Income Tax. Basically, the responsibilities of the Income and Oil Taxes Division are those common to most operating areas of tax administration. Sections receive and process tax returns, perform audits, conduct cross-checks of federal tax returns with state returns and use other investigative means to identify nonfilers, investigate reasons for nonfiling, and enforce filing requirements. Each section also promulgates tax rules and regulations, issues administrative tax rulings, recommends tax law changes, redesigns tax forms and revises instructions to taxpayers to comply with statutory changes, and monitors litigation.

Taxpayer assistance is also provided by each section. A statewide toll-free telephone service is provided to answer questions and assist taxpayers. Tax clinics are conducted to provide information on policy and legal changes affecting tax forms and filing requirements.

In the 1983-85 biennium, the Corporate Income Tax Section was responsible for administering the state's income tax imposed on all corporations doing business in North Dakota. It also administered the state's business privilege tax, as it applied to all corporations and banks, trust companies, and building and loan associations doing business in the state. Further, it was responsible for administering a separate privilege tax, imposed in lieu of a state income tax, on all banks, trust companies, and building and loans doing business in the state.

The Corporate Income Tax Section conducts in-office and/or field audits of all corporations. Historically, however, the primary emphasis for field audits has been placed on the large multinational corporations doing business in the state. Because field audits are very time consuming and the size of the section's staff limits the number of audits which it can reasonably conduct, the Corporate Income Tax Section relies, in part, on a program of cooperation with the Multistate Tax Commission to perform field audits.

In the 1983-85 biennium, the Section's auditing staff conducted 99 corporate income and business privilege tax field audits, nearly all of them on out-of-state corporations doing business in North Dakota. Those audits resulted in over $28 million in additional assessments.

Also in the 1983-85 biennium, field audits conducted by the Multistate Tax Commission resulted in $1.3 million in additional assessments for North Dakota. The state's cost for those audits was $142,000.

The present Oil and Gas Taxes Section had its beginning in June of 1980, with two full-time audit positions in the Sales and Special Taxes Division being assigned responsibility for oil and gas tax audits. Two additional full-time audit positions were authorized for the 1981-83 biennium and the first field audits were conducted. On July 1, 1981, the oil and gas taxes audit function was shifted to the Income Tax Division and assigned to the Corporate Income Tax Section. As the importance of oil and gas taxes grew, the number of audit positions in that area of responsibility also increased. Five additional auditors were authorized for the 1983-85 biennium; four of the positions emanating from the executive budget request, and one as a component of the "Fair Share" program. The expansion of oil and gas taxes audit function led to the creation of a separate and distinct section effective July 1, 1983 and increased to three the number of sections in the Income & Oil Taxes Division. During the 1983-85 biennium, oil and gas tax assessments resulting from office and field audits as well as cross-checks and compliance reviews exceeded $18.8 million.

The Oil and Gas Taxes Section performs in-office and field audits of oil and gas corporations which conduct business in the state. During the 1983-85 biennium, the auditing staff initiated 29 gross production and oil extraction tax audits that resulted in assessments of $15.9 million.

During the biennium, collections from office and field audits as well as cross-checks and compliance reviews totaled $5.9 million.

The Individual Income Tax Section, in the 1979-1981 biennium, was responsible for administering the state's income tax on individuals, estates and trusts. The state's business privilege tax as it applied to all individuals, estates, trusts, and partnerships doing business in North Dakota was repealed for tax years beginning on or after January 1, 1981. However, delinquent privilege tax returns are still being processed.

Data from all individual and fiduciary income tax and business privilege tax returns is entered at the Tax Department and processed at Central Data Processing. The computers generate calculation worksheets which identify any returns requiring additional attention. Returns are reviewed, claims for refunds are verified and additional taxes due are computed and assessed.

The Individual Income Tax Section also performs in-office and field audits. Most audits conducted by this section are in-office, although field audits of employers' records are also conducted to monitor compliance with the state income tax withholding law. Federal audits and in-office audits conducted by this section in the 1983-85 biennium netted more than $3.8 million in additional assessments for individual income taxes.

In the 1983-85 biennium, the staff of the Income & Oil Taxes Division included 43 full-time positions: an income and oil taxes director, a corporate income tax supervisor, an oil and gas taxes supervisor, an individual income tax supervisor, a compliance officer, 27 auditors, 3 audit technicians, a criminal investigation agent, and 7 clerks.

The following information summarizes the major changes in the structure of each of the principal taxes administered by the Income and Oil Taxes Division during the 1981-83 biennium:

OIL AND GAS TAXES:

The Oil and Gas Taxes Section administers the state's two-tiered tax structure on oil production: the oil and natural gas gross production tax and the oil extraction tax. The gross production tax, enacted in the 1950s, is a tax of 5 percent of the value of oil and gas at the wellhead. The extraction tax, which took effect January 1, 1981, under an initiated measure passed by voters in November of 1980, is a 6.5 percent tax on the value of oil at the wellhead. The extraction tax is applied against oil only.

Both the oil and gas gross production tax and the oil extraction tax were collected quarterly from producers and purchasers during the 1981-83 biennium. However, legislation passed by the 1983 session required monthly reporting of oil and gas taxes in the 1983-85 biennium. The two taxes are collected and accounted for separately because their revenues, under the law, are distributed differently. For each tax, collections, by county, are certified and then forwarded to the State Treasurer's Office, which is entrusted with the distribution of revenues from each tax. Despite an increase in oil and gas production within the state, steadily decreasing oil prices during the 1983-85 biennium have meant reduced tax revenues.

CORPORATE INCOME TAX:

The 1983 Legislature, as a result of declining state tax revenues, had increased corporate tax rates by 50 percent. The rate increase was to be a temporary three-year increase. However, with state revenues still declining, the 1985 Legislature made the rates permanent. The top bracket is taxed at $3,585 plus 10.5 percent of the taxable income over $50,000.

INDIVIDUAL INCOME TAX:

The 1983-85 biennium brought a curtailment to major individual income tax relief programs which had been provided for by a 1980 initiated measure and the 1981 Legislature upon enactment of the oil extraction tax. The initiated oil tax measure included a provision allowing an energy cost relief credit to all individual income taxpayers. The nonrefundable credit, which enabled taxpayers to subtract up to $100 from their state income tax liability, also was available to estate and trust income taxpayers. This energy cost relief credit was suspended by the 1983 Legislature and permanently repealed in the 1985 Session.

Legislation passed by the 1985 Legislature included amending state income averaging to make it correspond more directly with Federal income averaging; "Federalizing" the income tax law through December 31, 1984, except for safe harbor leases and ACRS depreciation; providing an adjustment of $1,000 for each child under the age of twenty-one adopted by a taxpayer; and changing the interest rate to be paid on refunds issued after June 30, 1985 from 11 percent to 9 percent.

The 1983 Legislature had increased tax rates for a three-year period, for those taxpayers using the long form, with the top bracket applying a tax of $3,090 plus 9 percent of the taxable income over $50,000. These increased rates were made permanent by the 1985 Legislature.

BUSINESS PRIVILEGE TAX:

The business privilege tax, which was enacted in 1970, was intended to replace part of the revenues lost through the repeal of the personal property tax. The tax was applied on all corporations, individuals, estates, trusts, and partnerships, doing business in the state. It was also applied on all banks, trust companies and building and loan associations doing business in the state.

For corporations and individuals, the business privilege tax was a tax of 1 percent on all taxable income. For banks, trust companies and building and loan associations, the business privilege tax was 2 percent on all taxable income.

The 1979 Legislature passed legislation repealing the business privilege tax on corporations, individuals, estates, trusts and partnerships for tax years beginning January 1, 1981. The 2 percent business privilege tax on banks, trust companies and building and loan associations was not repealed, however. Nor did the repeal affect the additional 5 percent privilege tax which is imposed on banks, trust companies and building and loan associations.

For the Tax Department's Corporate and Individual Income Tax Sections, the repeal meant no new business privilege taxes were imposed upon corporations, individuals, estates, trusts or partnerships for any tax years beginning after January 1, 1981. Both sections, however, continue to collect and audit for any delinquent business privilege taxes. In addition, the Corporate Income Tax Section continues to administer both the 2 percent business privilege tax and the 5 percent privilege tax applied against banks, trust companies and building and loan associations.

PROPERTY AND UTILITY TAXES DIVISION

The property tax is a major source of revenue for financing county, city and township government. While local government units have the responsibility of assessing and taxing all classes of real property, the State Tax Department provides assistance to local government units to assure that the property tax is administered equitably throughout the state.

The Property & Utility Taxes Division, under the direction of the State Supervisor of Assessments, works with local government to maintain equalization of property assessments between the various counties in North Dakota. To assure property tax equalization, the division performs annual sales ratio studies, which compare true and full value of real estate with the sale price of property. If significant assessment variations exist between counties, steps are taken by the State Board of Equalization to equalize those assessments. In addition, personnel from the division investigate individual assessments for the board and make detailed appraisals of complex properties when the owners of those properties have appeared before the State Board requesting a review.

The Homestead Credit and Renter Refund Program is also administered by the Property & Utility Taxes Division. Under this state-funded program, qualifying senior citizens and totally and permanently disabled persons receive a reduction of their property tax assessment or a partial refund of annual rent paid. The total amount of revenue lost to the counties by this reduction is reimbursed to them from the state general fund.

With the repeal of the personal property tax in 1969, a source of local revenue was lost. To offset that loss, replacement moneys from the state general fund are appropriated by the Legislature for distribution among the various political subdivisions, excepting schools. This personal property tax reimbursement program is administered by the Property & Utility Taxes Division.

The division also conducts seminars for local government officials to improve administration of the property tax and holds property tax appraisal schools for assessors and other local tax officials. Tax statutes are interpreted, legal questions are reviewed and analyzed, and information concerning changes in law or policy affecting property taxation is disseminated. The division acts as the liaison between local property tax administrators and state officials. While it does not directly administer the property tax, the division functions as a statistical and informational resource center of communications between all levels of government to maintain efficiency, promote uniformity, and achieve equalization within the property tax system. The change in legislative philosophy regarding budgetary control of local taxing districts makes it necessary that the Property and Utility Taxes Division develop maximum levy worksheets for use by the county auditors in determining the total dollar levy allowed each taxing district. Workshops conducted by division personnel provide county auditors with first-hand knowledge of the new procedures that they must use.

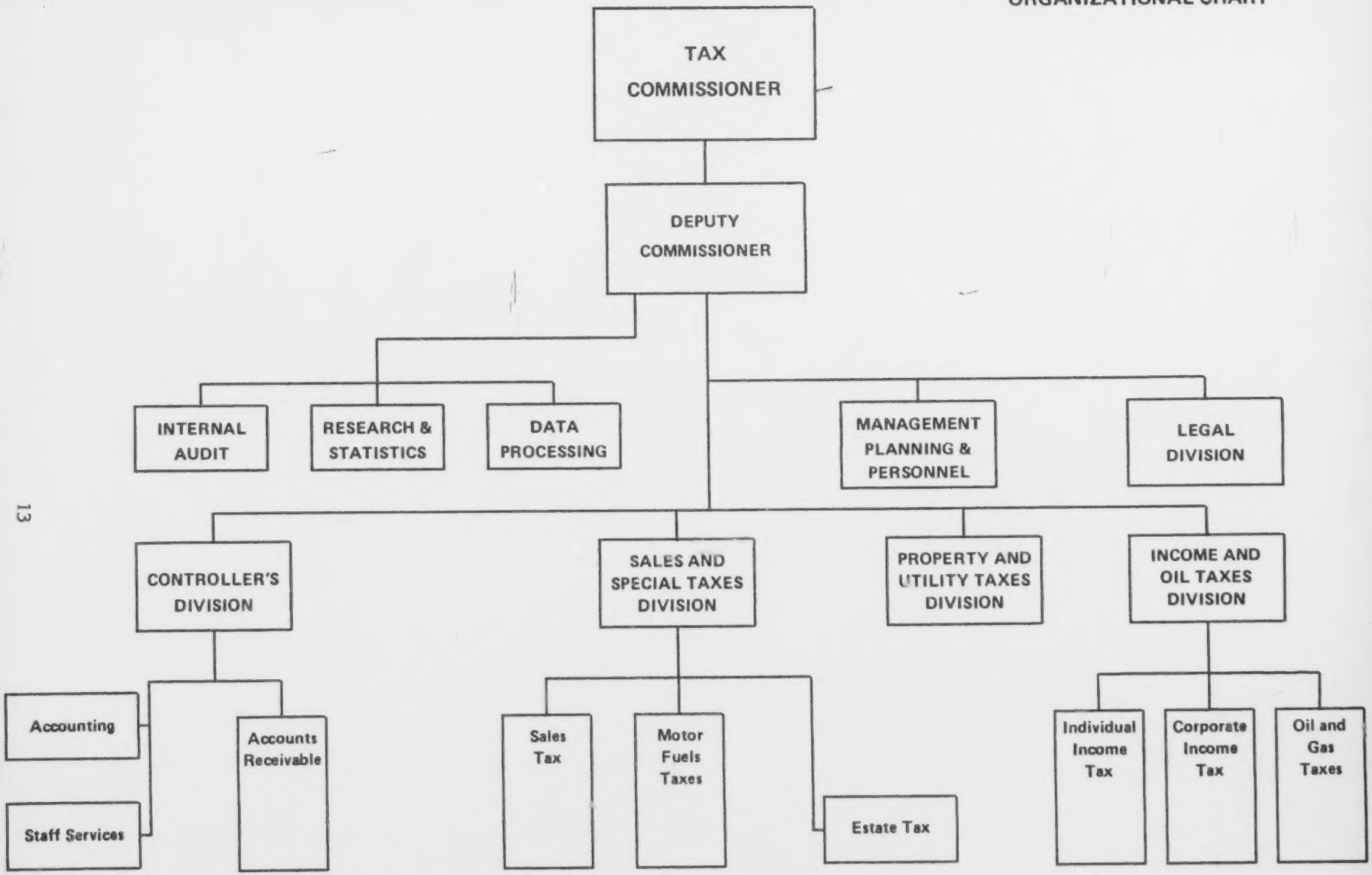
Assisting the Tax Commissioner and the State Board of Equalization in making valuations of utility property for property tax purposes is the Utilities Tax Section. Most real property is assessed by local government. However, the property of railroads, airlines, and public utilities such as electric and gas companies, and telephone companies, is assessed at the state level. After the Utilities Tax Section has completed its tentative valuations, the State Board of Equalization sets the final assessed valuations. The section then certifies to each county auditor the value placed on the utility property located within that county, and the tax is administered and collected by the local governments.

Another responsibility of the Utilities Tax Section is administering the state severance tax on coal and the coal conversion privilege tax on electrical generating plants and coal gasification plants. The 1983 Legislature added to the responsibility of the section during the biennium by requiring the implementation of a system to collect the coal taxes monthly, rather than quarterly, effective July 1, 1983. Also effective that date was an increase in the coal conversion tax to .5 mill per kilowatt hour of electricity produced. The section audits reports of collections of these energy-related taxes. The Utilities Tax Section also prepares reports on the collection of these taxes and information for revenue distribution by the State Treasurer's Office, which is responsible for allocating revenue from these taxes between the state, the producing counties, the State Energy Development Impact Office and a permanent Coal Development Trust Fund.

The Property and Utilities Taxes Division annually certifies to county directors of tax equalization in each of the state's 53 counties the average true and full agricultural value of farmland, as determined by North Dakota State University. It is this value on which the counties base their assessments of agricultural property. The Property and Utility Taxes Division also is responsible for administering the Homestead Credit Act program. Credits are allowed not only against real property tax assessments but against special assessments as well. Credits allowed for special assessments become a lien on the property. The division has the responsibility for monitoring the liens and for providing a release whenever the liens are satisfied.

The staff of the Property and Utility Taxes Division, in the 1983-85 biennium, included six full-time positions: the state supervisor of assessments, a deputy supervisor, a property tax appraiser, a utility tax appraiser and two clerks.

NORTH DAKOTA TAX DEPARTMENT
ORGANIZATIONAL CHART



FUTURE DIRECTIONS: CHANGES IN THE 1985-87 BIENNIUM
Tax Legislation Enacted in the 1985 Session

Legislation enacted during the 1985 legislative session will have a significant impact on the administration of some of North Dakota's principal taxes during the 1985-87 biennium and in the years beyond. The following summaries address the major tax legislation passed by the 1985 legislature and how those changes will affect the Tax Department and the taxpayers it serves.

INDIVIDUAL INCOME TAX:

The information which follows briefly sets out the 1985 tax legislation as it applies to Form 37-S (short form) and/or Form 37 (long form).

Form 37-S

Provides that the alternative minimum tax must be reduced by the investment credit claimed when computing the adjusted Federal income tax liability.

Form 37

1. "Federalizes" the income tax law through December 31, 1984, except for safe harbor leases and ACRS depreciation.

2. Increases the zero bracket amount and the personal exemption to comply with Federal indexing which was adopted for State income tax purposes. (These provisions were approved by the 1983 North Dakota Legislature.)

3. Removes the requirement that the statement the landowner obtains from the buyer in the beginning farmer program be notarized.

4. Requires that the beginning farmer participate in the adult farm management program of the State Board of Vocational Education or an equivalent program approved by the Commissioner of Agriculture.

5. Provides that UDITPA (Uniform Division of Income for Tax Purposes Act) does not apply to resident individuals, estates, or trusts, including their distributive shares from partnerships.

6. Amends state income averaging to make it correspond more directly with Federal income averaging.

7. Provides for a limited income tax credit for an investment in a venture capital corporation.

8. Provides an adjustment of $1,000 for each child under the age of twenty-one adopted by the taxpayer.

Form 37-S and Form 37

1. Makes permanent the temporary tax rates for individuals, estates, and trusts and makes permanent the temporary repeal of the energy cost relief credit.

2. Provides guidelines for claiming personal exemptions and itemized deductions when married filing separately.

3. Changes interest rate to be paid on refunds issued after June 30, 1985 from 11% to 9%.

CORPORATE INCOME TAX

All corporate taxpayers whose estimated tax due can reasonably be expected to exceed five thousand dollars are required to make a quarterly declaration of their estimated tax for tax years beginning after December 31, 1983, and to pay at least one-quarter of the amount due on each of the prescribed dates. For taxable years beginning after December 31, 1984 the declaration of estimated tax may be based on the previous years' tax liability.

The tax rates adopted in 1983 were made permanent by the 1985 Legislature. The top bracket will be taxed at $3,585 plus 10.5% of the taxable income over $50,000.

Beginning in tax year 1985, a limited tax credit is available for investments made in venture capital corporations.

OIL AND GAS TAXES

The gross value for tank bottom and pit oil material removed from a lease is the purchase price paid by the operator of the reclaiming plant. If the operator does not pay a cash price for such material, the oil has no value.

For purposes of payment of gross production tax and royalties, the Industrial Commission will determine the value of gas flared in violation of the law and the rules promulgated by the Industrial Commission.

SALES AND SPECIAL TAXES

Retailers whose taxable sales exceeded three hundred thirty-three thousand dollars for the preceding calendar year are required to file and pay monthly. The retailer may deduct 1.5 percent of tax due as a compensation for administrative costs relative to monthly reporting, with a maximum deduction of $83.33 per month for each location with a sales tax permit. The monthly filing requirement applies to fewer than 10 percent of the state's retailers.

The tax on qualifying gasohol was reduced from 13 to 5 cents per gallon from July 1, 1985 through June 30, 1987. Beginning July 1, 1987 the rate will be increased to nine cents per gallon. In order to qualify for the reduced rate, the gasohol must be blended with alcohol produced in North Dakota from agricultural products or coal. Gasohol blended with alcohol produced in another state and sold in North Dakota is eligible for a tax reduction but only to the extent that that state's specific reduction applies to qualifying alcohol manufactured or distilled in North Dakota.

COAL CONVERSION

The 1985 Legislature exempted financial assistance provided by the federal government or any agency of the federal government from the 2.5 percent gross receipts tax imposed on all coal conversion facilities other than electrical generating plants. It also changed the tax on coal gasification plants constructed prior to July 1, 1985, to either 2.5 percent of gross receipts or 15 cents on each 1,000 cubic feet of synthetic natural gas produced for sale, whichever is greater. For coal gasification plants constructed after July 1, 1985, the tax remains at 2.5 percent of gross receipts, or 10 cents on each 1,000 cubic feet of synthetic natural gas produced for sale whichever is greater. All coal conversion facilities, other than electrical generating plants, which commence construction after July 1, 1985, are exempt from 65 percent of the coal conversion tax for 5 years and may be exempted from part or all of the remaining 35 percent by resolution of the county commissioners.

COAL SEVERANCE

The 1985 Legislature exempted from the coal severance tax and sales and use taxes, coal used in agricultural processing or sugar beet refining plants located within North Dakota or adjacent states, and reduced the rate of severance tax by fifty percent for coal to be burned in a cogeneration facility designed to use renewable resources as fuel to generate 10 percent more or its energy output.

TAX COLLECTIONS IN THE 1983-85 BIENNIUM

In the 1983-85 biennium, the national and international economic trends continued to adversely impact the North Dakota economy. Agriculture and energy, the primary industries in North Dakota, suffered as world supply continued to exceed lagging demand. This negative impact was compounded in the agriculture sector as the value of the dollar climbed dramatically during the biennium, placing North Dakota products at a competitive disadvantage in world export markets.

Despite the relative weakness of the North Dakota economy, tax collections increased in the 1983-85 biennium. Total net collections by the tax department in the 1983-85 biennium reached $1,218.7 million, an increase of $298.1 million from the 1981-83 collection total of $920.6 million. The collections increase is primarily because of tax rate increases, restructured tax payment schedules, and expanded audit activity. Further detail is provided by tax type in the following narrative.

SALES AND USE net tax collections in the 1983-85 biennium totaled $342.8 million, an increase of $83.5 million, or 32.2%, over the 1981-83 biennium collections totaling $259.3 million. The 1983-85 biennium collection increase is due primarily to a tax rate increase and a modification to the payment schedule. Effective April 1, 1983, the tax rate on general sales was increased from 3% to 4%; the tax rate on new mobile homes was increased from 2% to 3%; and the tax on liquor sales was increased from 3% to 5%. Effective July 1, 1983, a business with taxable sales greater than $333,000 in the preceding calendar year must make three separate monthly estimated payments prior to filing the quarterly return which is then used to reconcile deposits with total sales tax due for the quarter. The one-time positive revenue impact associated with the implementation of a monthly estimated payment schedule caused fiscal year 1984 collections to be greater than fiscal year 1985 collections.

MOTOR VEHICLE EXCISE AND USE net tax collections in the 1983-85 biennium totaled $46.9 million, an increase of $14.2 million, or 43.3%, over the 1981-83 biennium collections totaling $32.7 million. The 1983-85 biennium collection increase is primarily because of 1983 legislation which served to increase the tax rate from 3% to 4% effective April 1, 1983.

CIGARETTE AND TOBACCO net tax collections in the 1983-85 biennium totaled $25.4 million, an increase of $5.2 million, or 25.6% over the 1981-83 biennium collections totaling $20.2 million. Effective April 1, 1983, the state's cigarette tax was increased from 12 cents per package to 18 cents per package. This tax rate increase served to increase collections in the biennium despite a decline in cigarette consumption in North Dakota.

MOTOR AND SPECIAL FUEL net tax collections in the 1983-85 biennium totaled $119.6 million, an increase of $35.5 million, or 42.2%, over the 1981-83 biennium collections totaling $84.1 million. The 1983-85 biennium collection increase is primarily because of 1983 legislation which served to increase motor fuels and special fuels per gallon tax rate from 8 cents to 13 cents.

INDIVIDUAL INCOME net tax collections in the 1983-85 biennium totaled $150.1 million, an increase of $80.0 million, or 113%, over the 1981-83 biennium collections totaling $70.5 million. The 1983-85 biennium collection increase is primarily because of the repeal of the Energy Cost Relief Credit and the tax rate increases enacted by the 1983 Legislature for tax years beginning on or after January 1, 1983.

CORPORATE INCOME net tax collections in the 1983-85 biennium totaled $125.4 million, an increase of $64.3 million, or 109.4%, over the 1981-83 biennium collections totaling $61.1 million. The 1983-85 biennium collection increase results from an increase in corporate income, increased audit activity, increased tax rates, and a modification to the filing schedule. The tax rates were increased by 50% beginning in tax year 1983. Taxpayers whose estimated tax due can be expected to exceed $5,000 are required to file quarterly estimated tax payments for tax years beginning after December 31, 1983. The one-time positive revenue impact associated with the implementation of the quarterly estimated payment requirement and the increased auditing through the Fair Share program are the primary causes for the significant collection increase in fiscal year 1985.

COAL CONVERSION net tax collections in the 1983-85 biennium totaled $22.3 million, an increase of $15.0 million, or 203.0%, over the 1981-83 biennium collections totaling $7.4 million. The 1983-85 biennium collection increase results from increased production, increased tax rates and a modification to the filing schedule. Effective July 1, 1983, the coal conversion tax was increased from .25 mill to .50 mill per kilowatt hour of electricity produced and taxpayers were required to file on a monthly rather than quarterly filing schedule.

COAL SEVERANCE net tax collections in the 1983-85 biennium totaled $48.1 million, an increase of $12.9 million, or 36.7%, over the 1981-83 biennium collections totaling $35.2 million. The 1983-85 biennium collection increase is because of increased production and a modification to the filing schedule. Effective July 1, 1983, taxpayers began to file on a monthly rather than quarterly filing schedule.

OIL AND GAS GROSS PRODUCTION net tax collections in the 1983-85 biennium totaled $158.1 million, a decrease of $1.4 million, or −.9%, below the 1981-83 biennium collections totaling $159.5 million.

OIL EXTRACTION net tax collections in the 1983-85 biennium totaled $169.3 million, a decrease of $6.8 million, or −3.9%, below the 1981-83 biennium collections totaling $176.1 million. The biennial collection decline in the oil tax types is because of the continuing fall in the price of oil worldwide. During the 1983-85 biennium, the predominant North Dakota oil price decreased slightly more than 10%. Yet two factors did serve to moderate the negative revenue impact associated with a significant drop in oil prices. First, oil production increased in 1984 to a record annual level. Secondly, effective July 1, 1983, taxpayers were required to file according to a monthly rather than a quarterly filing schedule. The higher oil prices in fiscal year 1984 and the one-time positive revenue impact associated with the implementation of the monthly payment schedule caused fiscal year 1984 collections to be greater than fiscal year 1985 collections.

Historically, the North Dakota Tax Department has had one of the best cost vs. return ratios of any state revenue department in the nation. Its cost-return ratio in the 1983-85 biennium was better than ever, a 2% improvement over the previous biennium. During 1983-85, Tax Department expenditures totaled $9,952,573.26, compared to total net tax collections of $1,218,736,197.12. That means that for every dollar the Tax Department spent, it collected over $122. Viewed another way, it means that the Tax Department spent less than one penny – just eight-tenths of a cent – for every dollar it collected.

NORTH DAKOTA STATE TAX DEPARTMENT
GROSS MONTHLY COLLECTIONS
For the Biennium Ending June 30, 1985

	[1] Sales and Use Tax	[2] Individual Income Tax	[2] Corporate Income Tax	Cigarette and Tobacco Tax	Gross Production Tax	Oil Extraction Tax	Coal Severance Tax	Motor Vehicle Use Tax (MVF)	Motor Vehicle Excise & Use Tax (GF)	Estate Tax	Coal Conversion Tax	Motor Vehicle Fuel Tax	Special Fuels Tax	Business & Corporate Privilege Tax	[3] Miscellaneous	TOTALS
July, 1983	$6,197,655.85	$2,818,812.46	$752,567.22	$1,396,294.92	$65,042.52	$51,135.95	$151,612.11	$120,003.99	$1,982,490.99	$177,526.01	$.00	$2,806,015.69	$1,138,660.35	$11,214.27	$6,306.15	$17,675,338.48
August	42,044,370.26	4,567,150.42	829,896.12	1,080,947.95	19,481,377.23	20,943,048.86	5,606,357.87	108,862.77	1,724,219.31	212,771.24	1,513,308.86	3,778,648.47	1,535,367.54	28,144.24	141,672.56	103,596,143.70
September	11,473,607.30	323,950.10	7,609,843.66	1,245,503.45	8,234,625.35	9,488,712.36	2,008,080.98	126,576.27	1,884,356.82	149,538.70	955,460.01	5,020,818.77	1,728,886.75	36,511.89	10,630.26	50,297,102.67
October	12,661,698.10	3,967,260.40	6,817,213.45	952,673.80	4,365,391.59	4,074,055.52	1,679,466.87	127,923.40	1,880,293.36	199,656.64	511,703.35	3,419,816.09	1,479,611.88	23,161.94	40,078.52	42,200,004.91
November	19,655,473.60	5,356,904.88	858,263.65	1,105,616.35	6,572,373.38	7,022,440.07	1,654,351.31	111,587.50	1,865,185.05	118,255.07	717,558.56	3,900,208.06	1,683,695.59	98,096.71	147,197.18	50,867,206.96
December	9,147,881.40	933,409.51	1,152,742.34	1,093,406.76	9,084,233.18	10,110,392.98	1,692,285.22	89,021.19	1,660,208.22	104,699.78	596,681.30	4,362,028.31	1,851,178.58	80,137.52	8,654.41	41,966,960.70
January, 1984	14,705,267.91	6,740,753.87	1,240,257.86	1,074,806.20	3,269,871.68	3,338,694.42	1,926,404.26	107,391.15	1,673,957.66	128,586.55	827,274.95	3,441,084.71	1,660,969.05	74,064.01	23,051.38	40,232,435.66
February	18,505,691.62	8,679,753.59	998,672.11	855,102.36	6,184,760.83	6,189,615.95	1,137,996.81	51,223.56	915,513.78	100,038.47	704,169.50	2,833,968.07	1,324,962.24	64,571.92	112,752.25	48,658,793.06
March	10,253,382.14	6,212,158.75	2,474,852.71	1,019,390.34	9,173,204.02	10,219,444.67	2,764,406.12	141,162.48	2,125,702.89	210,131.09	998,972.23	4,520,265.37	1,963,056.68	333,200.07	13,630.22	52,422,959.78
April	9,031,212.29	28,011,694.52	10,096,950.36	923,672.73	4,725,775.23	4,993,720.87	531,962.48	118,006.82	1,772,032.84	115,568.25	956,698.67	1,622,252.03	721,240.18	863,176.55	24,123.63	64,508,087.25
May	18,423,848.70	12,671,324.33	2,254,718.09	1,068,098.36	5,801,067.53	6,135,122.47	2,278,441.13	80,171.42	1,350,081.59	160,715.66	1,042,474.64	4,472,718.80	2,005,504.69	48,418.41	112,143.20	57,904,849.02
June	9,640,197.48	968,297.45	9,674,897.86	1,183,549.15	8,354,880.28	8,913,681.90	1,328,486.38	138,278.84	2,538,269.37	823,529.19	817,528.13	4,501,879.27	2,010,033.99	284,821.95	382,334.51	51,560,665.75
FY-1984 TOTALS	$181,740,286.65	$81,251,470.28	$44,760,875.43	$12,999,062.37	$85,312,602.82	$91,480,066.02	$22,759,851.54	$1,320,209.39	$21,372,311.68	$2,501,016.65	$9,641,830.20	$44,679,703.64	$19,103,167.52	$1,945,519.48	$1,022,574.27	$621,890,547.94
July, 1984	$12,192,068.17	$3,824,237.14	$1,805,282.34	$1,130,207.68	$6,356,996.52	$6,747,301.05	$1,656,164.13	$136,153.00	$2,090,878.28	$141,137.54	$539,959.97	$4,118,211.46	$1,719,300.10	$42,671.27	$70,253.29	$42,570,821.94
August	20,483,990.30	6,528,500.51	3,085,970.71	1,213,196.54	8,310,960.44	9,134,174.59	1,762,877.62	129,347.11	1,937,299.71	182,161.44	988,134.38	4,930,977.58	1,910,103.25	33,939.43	101,593.02	60,733,226.63
September	10,813,896.76	366,891.46	18,192,778.92	948,618.61	3,831,406.30	3,836,106.80	2,118,432.26	154,925.12	2,305,096.37	136,616.53	711,911.30	2,863,995.31	906,054.96	72,024.05	4,864.78	47,263,619.53
October	13,618,882.48	4,336,378.29	14,513,928.46	1,234,825.92	7,588,271.80	8,290,655.38	1,833,943.65	92,095.87	1,523,226.26	121,917.37	834,252.04	5,682,831.00	2,452,861.14	135,847.12	51,073.48	62,310,990.76
November	19,557,206.62	5,580,262.14	1,720,719.93	1,013,287.62	8,153,084.80	9,011,961.28	2,018,934.47	141,174.84	2,432,483.63	493,384.05	1,138,043.74	4,338,993.73	2,058,116.84	65,751.65	148,921.13	57,872,326.47
December	8,405,382.71	815,470.29	10,065,483.98	889,272.10	5,799,299.16	6,075,317.86	1,544,907.62	92,738.05	1,584,043.84	394,564.47	1,039,106.29	2,346,090.11	1,082,939.03	26,392.81	15,471.71	40,176,480.03
January, 1985	16,661,862.80	9,484,926.56	9,145,342.82	1,004,969.52	7,865,147.73	8,470,533.05	1,881,156.16	96,197.46	1,759,738.77	200,730.59	1,235,760.80	4,203,472.58	1,786,389.18	32,382.21	37,018.29	63,865,628.52
February	16,534,184.44	7,247,378.31	1,775,365.06	877,715.63	2,929,208.36	2,804,014.42	2,845,589.08	121,959.68	1,858,972.92	103,821.41	621,063.75	2,448,693.64	1,303,586.45	42,036.35	94,451.85	41,608,041.35
March	8,800,451.56	6,123,350.53	4,939,417.98	947,488.34	6,316,321.53	6,545,658.01	3,005,551.30	83,575.86	1,452,548.10	221,143.37	1,837,776.54	4,666,368.14	2,023,398.17	343,333.13	18,609.27	47,324,991.83
April	9,630,061.12	30,717,102.24	9,952,977.59	885,977.41	4,857,091.47	5,169,900.51	2,190,361.11	103,914.27	1,737,044.85	139,161.19	1,413,299.27	2,184,653.11	930,780.80	520,501.35	21,292.17	70,454,118.46
May	18,012,442.04	8,054,992.61	2,438,262.31	1,117,111.65	7,569,705.14	8,312,956.15	2,971,222.14	125,990.19	1,984,749.63	393,600.33	1,143,082.47	4,610,047.55	2,058,585.86	401,760.02	124,978.58	59,319,486.67
June	8,990,332.77	952,155.71	9,849,261.02	1,126,807.78	3,489,319.84	3,455,428.69	1,528,117.76	134,829.91	2,119,459.01	124,836.50	1,182,038.13	2,733,095.36	1,076,395.29	99,306.76	387,008.19	37,248,392.72
FY-1985 TOTALS	$163,700,761.77	$84,031,645.79	$87,484,791.12	$12,389,478.80	$73,066,813.09	$77,854,008.29	$25,357,257.30	$1,412,901.36	$22,785,541.37	$2,653,074.79	$12,684,428.68	$45,127,429.57	$19,308,511.07	$1,815,946.15	$1,075,535.76	$630,748,124.91
1983-85 BIENNIUM TOTALS	$345,441,048.42	$165,283,116.07	$132,245,666.55	$25,388,541.17	$158,379,415.91	$169,334,074.31	$48,117,108.84	$2,733,110.75	$44,157,853.05	$5,154,091.44	$22,326,258.88	$89,807,133.21	$38,411,678.59	$3,761,465.63	$2,098,110.03	$1,252,638,672.85

[1] Includes Aircraft Excise Tax in the amount of $219,266.41 for the 1983-85 biennium. (FY-84 = $10,585.90 and FY-85 = $208,669.51), and City Sales Tax Totaling $534,444.34 in FY-85.

[2] In FY-1984, Individual Income Tax Collections include $300.69 in Vietnam Bonus Surtax and Corporate Income Tax collections include $286.78 in Vietnam Bonus Surtax in FY-1985. Individual Income Tax collections include $12.80 in Vietnam Bonus Surtax and Corporate Income Tax collections include $210.13 in Vietnam Bonus Surtax.

[3] In FY-1984, miscellaneous includes $84,960 for Sales & Use Tax Cash Bonds; $0 for Music and Composition Tax; $680,084.41 for City Occupancy Tax; $151 for Motor Fuel License Fees; $3,500 for Motor Fuel Tax Cash Bonds; $352,066.50 for Transmission Line Tax; and $1,822.36 for Miscellaneous Remittances.

In FY-1985, miscellaneous includes $70,840 for Sales & Use Tax Cash Bonds; $26,335.28 for Music & Composition Tax; $596,478.02 for City Occupancy Tax; $1,218 for Motor Fuel License Fees; $5,000 for Motor Fuel Tax Cash Bonds; $374,744.25 for Transmission Line Tax; and $920.21 for Miscellaneous Remittances.

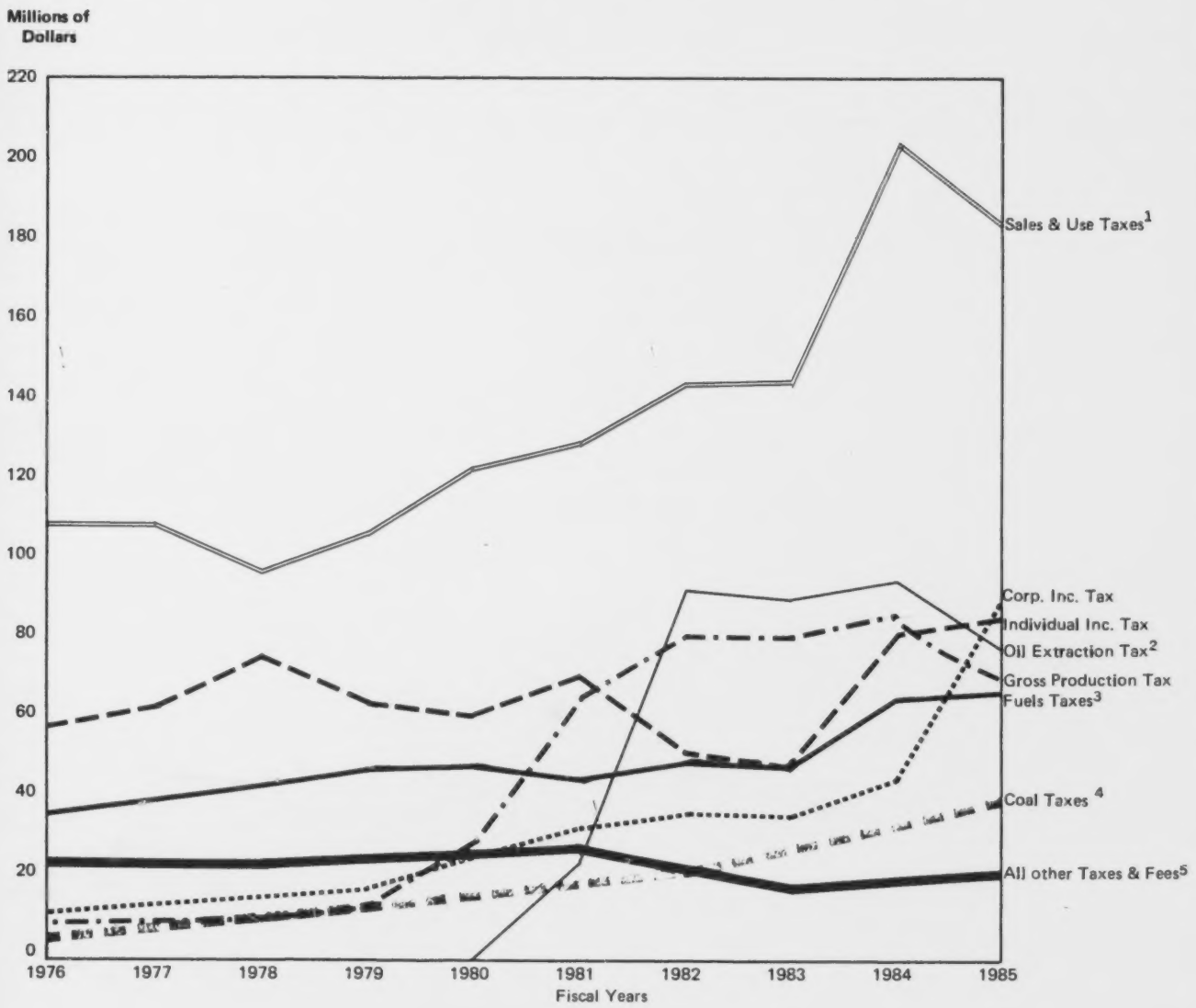
SOURCE: Comparative Statement of Collections, North Dakota State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT
COMPARATIVE STATEMENT OF CHANGES IN COLLECTION DATA
For the Biennium ending 6-30-85

Description	FISCAL YEAR 1984			FISCAL YEAR 1985			Net Increase Decrease	% Increase Decrease
	Gross Collections	Refunds	Net Collections	Gross Collections	Refunds	Net Collections		
Sales & Use Tax	$181,729,700.75	$1,236,972.45	$180,492,728.30	$162,957,647.92	$696,519.97	$162,261,127.95	$-18,231,600.35	-10.10%
Aircraft Excise Tax	10,585.90	.00	10,585.90	208,669.51	.00	208,669.51	198,083.61	1871.20%
Motor Vehicle Use Tax (GF)	1,320,209.33	.00	1,320,209.33	1,412,901.30	.00	1,412,901.30	92,691.97	7.02%
Motor Vehicle Excise Tax	20,052,102.35	.00	20,052,102.35	21,372,640.07	.00	21,372,640.07	1,320,537.72	6.59%
City Lodging Tax	580,084.41	.00	580,084.41	596,478.02	.00	596,478.02	16,393.61	2.83%
City Sales Tax	.00	.00	.00	534,444.34	.00	534,444.34	534,444.34	N/A
Individual Income Tax	81,251,169.59	7,300,000.00 *	73,951,169.59	84,031,633.29	7,850,000.00 *	76,181,633.29	2,230,463.70	3.02%
Corporate Income Tax	44,760,588.65	2,500,000.00 *	42,260,588.65	87,484,580.99	4,350,000.00 *	83,134,580.99	40,873,992.34	96.72%
Business & Corp. Privilege Tax	1,945,519.48	495,000.00 *	1,450,519.48	1,815,946.15	506,000.00 *	1,309,946.15	-140,573.33	-9.69%
Cigarette Tax (Cities)	2,112,569.52	.00	2,112,569.52	2,007,212.33	.00	2,007,212.33	-105,357.19	-4.99%
Cigarette Tax (GF)	10,562,835.54	.00	10,562,835.54	10,036,059.31	.00	10,036,059.31	-526,776.23	-4.99%
Tobacco Tax	323,657.31	.00	323,657.31	346,207.16	.00	346,207.16	22,549.85	6.97%
Oil & Gas Gross Production Tax	85,312,602.82	190,413.80	85,122,189.02	73,066,813.09	52,789.04	73,014,024.05	-12,108,164.97	-14.22%
Oil Extraction Tax	91,480,066.02	7,193.32	91,472,872.70	77,854,008.29	54,866.76	77,799,141.53	-13,673,731.17	-14.95%
Motor Vehicle Use Tax (MVF)	1,320,209.39	.00	1,320,209.39	1,412,901.36	.00	1,412,901.36	92,691.97	7.02%
Estate Tax	2,501,016.65	.00	2,501,016.65	2,653,074.79	.00	2,653,074.79	152,058.14	6.08%
Miscellaneous Remittances	1,822.36	.00	1,822.36	920.21	.00	920.21	-902.15	-49.50%
Coal Severance Tax	22,759,851.54	.00	22,759,851.54	25,357,257.30	.00	25,357,257.30	2,597,405.76	11.41%
Coal Conversion Tax	9,641,830.20	.00	9,641,830.20	12,684,428.68	.00	12,684,428.68	3,042,598.48	31.56%
Transmission Line Tax	352,066.50	.00	352,066.50	374,744.25	.00	374,744.25	22,677.75	6.44%
Music and Composition Tax	.00	.00	.00	26,335.28	.00	26,335.28	26,335.28	N/A
Sales & Use Cash Bonds	84,950.00	.00	84,950.00	70,840.00	.00	70,840.00	-14,110.00	-16.61%
Fuel Dealers Fee	151.00	.00	151.00	1,218.00	.00	1,218.00	1,067.00	706.62%
Motor Vehicle Fuel Tax	44,679,703.64	3,026,394.15 *	41,653,309.49	45,127,429.57	4,036,326.24 *	41,091,103.33	-562,206.16	-1.35%
Special Fuel Tax	19,103,167.52	700,000.00 *	18,403,167.52	19,308,511.07	900,000.00 *	18,408,511.07	5,343.55	.03%
Motor Fuel Tax - Cash Bond Fund	3,500.00	.00	3,500.00	5,000.00	.00	5,000.00	1,500.00	42.86%
Vietnam Bonus Surtax	587.47	.00	587.47	222.63	.00	222.63	-364.84	-62.10%
TOTAL COLLECTIONS	$621,890,547.94	$15,455,973.72	$606,434,574.22	$630,748,124.91	$18,446,502.01	$612,301,622.90	$5,867,048.68	.97%

*Represents amounts transferred to refund reserve accounts — not actual refunds.

NORTH DAKOTA STATE TAX DEPARTMENT
TRENDS IN GROSS COLLECTIONS
For the Fiscal Years Ending June 30, 1976 to 1985



[1] Includes Sales and use tax, motor vehicle excise and use taxes, and aircraft excise tax.

[2] The oil extraction tax went into effect on January 1, 1981.

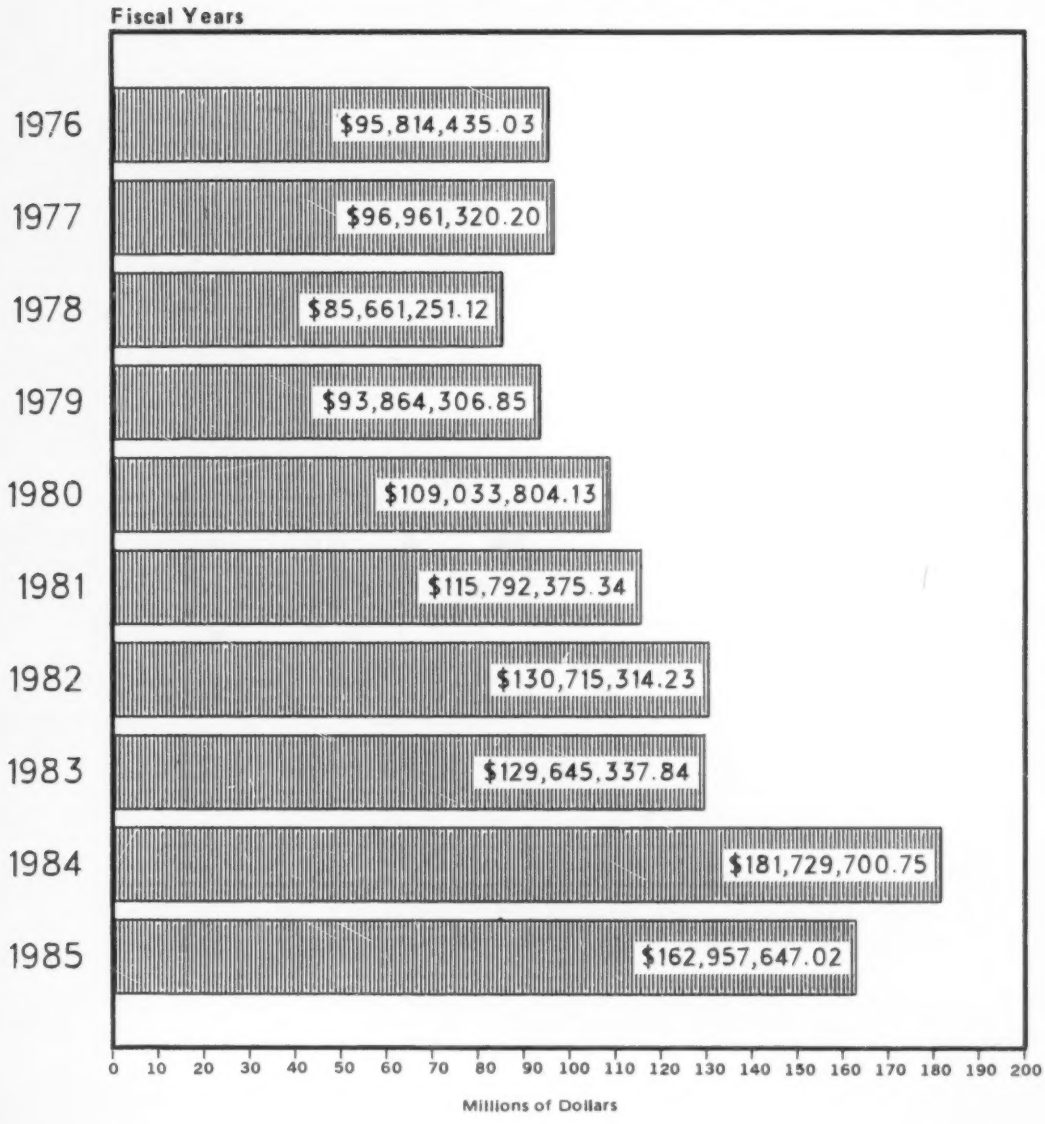
[3] Includes motor vehicle fuel and special fuel taxes.

[4] Includes coal severance tax and coal conversion facilities privilege tax.

[5] Includes cigarette tax, tobacco tax, estate tax, business and corporation privilege tax, Viet Nam bonus surtax, transmission lines tax, motor vehicle use (50% MVF) tax, city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, and miscellaneous remittances.

SOURCE: Comparative Statement of Collections, North Dakota State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT
SALES AND USE TAX GROSS GENERAL FUND COLLECTIONS
During Fiscal Years Ended June 30, 1976 to 1985



On January 1, 1977, the 4% tax was reduced to 3%; the tax on farm machinery and irrigation equipment was reduced from 4% to 2%; and the 4% tax on electricity was eliminated.

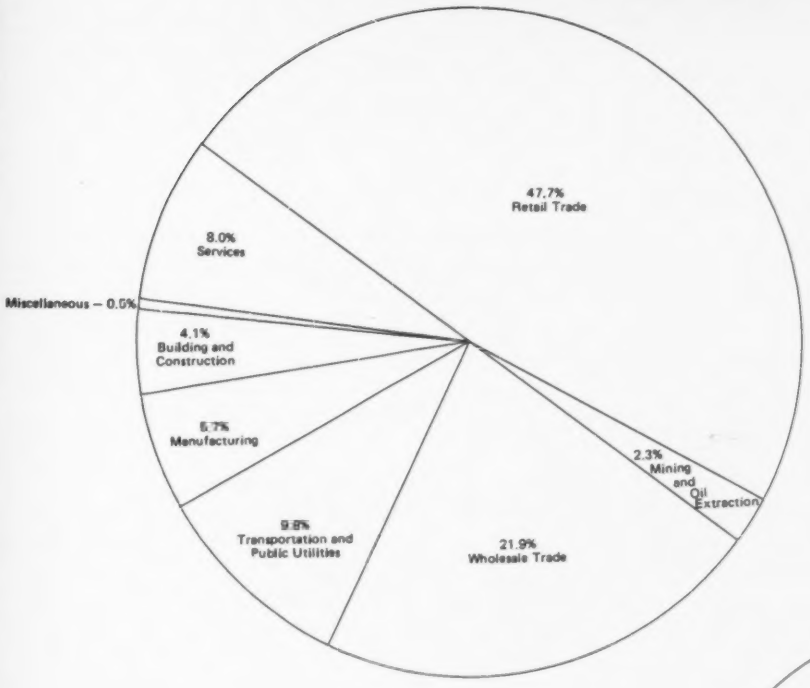
On July 1, 1981, sales of water and used mobile homes were exempted from the sales tax; and the tax on new mobile homes was reduced from 3% to 2%.

On April 1, 1983, the general sales and use tax was increased from 3% to 4%; the tax rate on new mobile homes, farm machinery and irrigation equipment was increased from 2% to 3%; and the tax on liquor sales was increased from 3% to 5%. These law changes served to increase fiscal year 1984 and 1985 collections.

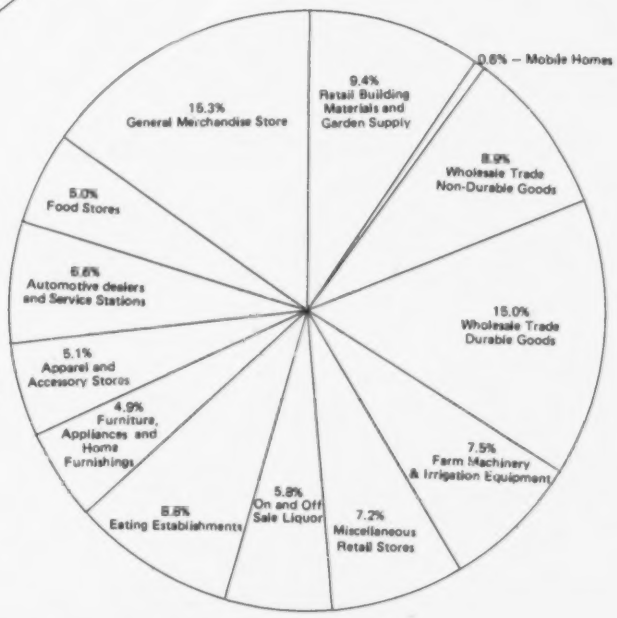
Effective July 1, 1983, a business with taxable sales greater than $333,000 in the preceding calendar year must make three separate monthly estimated payments prior to filing the quarterly return which is then used to reconcile deposits with total sales tax due for the quarter. The one-time positive revenue impact associated with the implementation of the monthly estimated payment schedule caused fiscal year 1984 collections to be greater than fiscal year 1985 collections.

SOURCE: Comparative Statement of Collections, North Dakota State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT
STATEWIDE SALES AND USE TAX STATISTICS BY BUSINESS CLASSIFICATION
REPORTED IN THE 1983-85 BIENNIUM



SALES AND USE TAX COLLECTIONS
SALES AND USE TAX
COLLECTIONS PERCENTAGE BY
MAJOR BUSINESS CLASSIFICATIONS



SALES AND USE TAX COLLECTIONS
PERCENTAGE BREAKDOWN OF
WHOLESALE AND RETAIL TRADE SECTORS

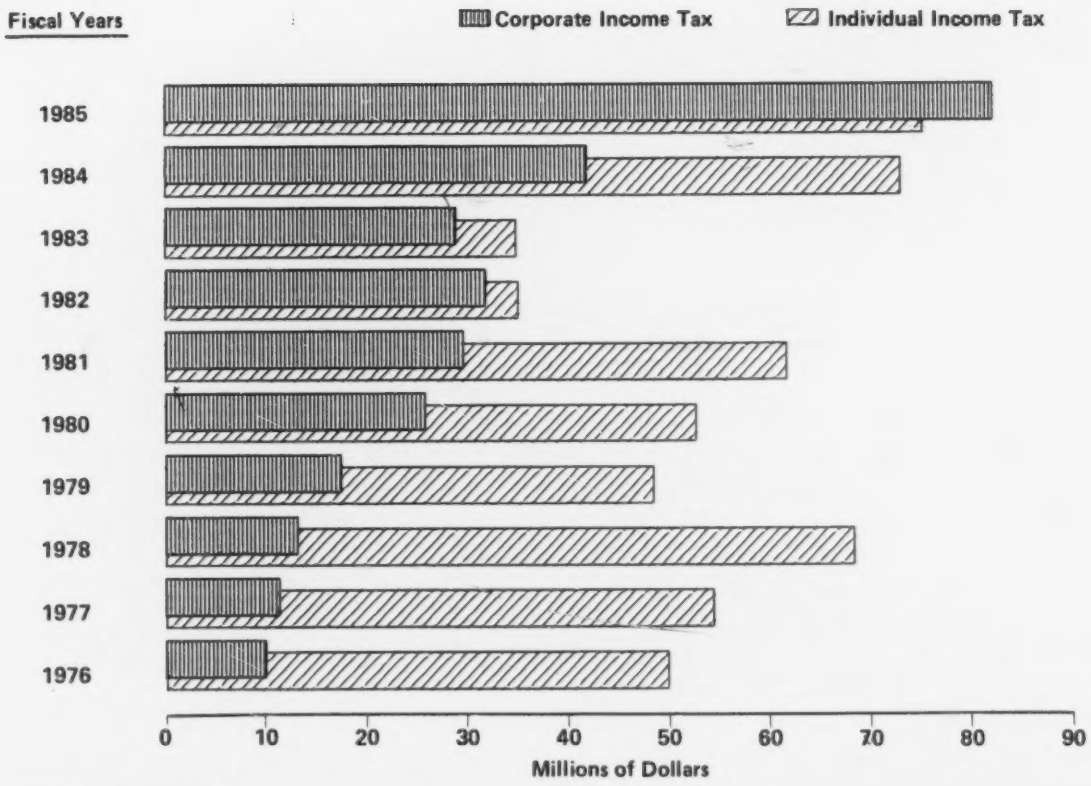
SOURCE: North Dakota Sales and Use Tax Quarterly Statistical Reports and North Dakota TX-1188 Records.

NOTE: "The sales tax is levied upon the gross receipts from retail sales of tangible personal property; furnishings or service of steam, gas and communication services; recreation and amusement receipts; magazines and periodicals; leasing or renting of hotel, motel or tourist court accommodations; leasing or renting of tangible personal property.

The use tax is imposed upon any tangible personal property purchased at retail for storage, use, or consumption in this state and not subjected to the North Dakota sales and tax, unless otherwise exempt by law. Generally this tax applies on purchases of tangible personal property at retail outside North Dakota for use in this state when such purchases are made from a retailer who does not collect a sales and use tax. Under these circumstances, the purchaser must remit the tax directly to the North Dakota Tax Commissioner.

Sales tax permit holders are categorized through the use of the Standard Industrial Classification System, generally referred to as "SIC" codes. The SIC system is used by government and business throughout the United States to facilitate record keeping and the compilation of statistics regarding business and industry.

NORTH DAKOTA STATE TAX DEPARTMENT
NET INDIVIDUAL AND CORPORATE INCOME TAX COLLECTIONS
During Fiscal Years Ended June 30, 1976 to 1985

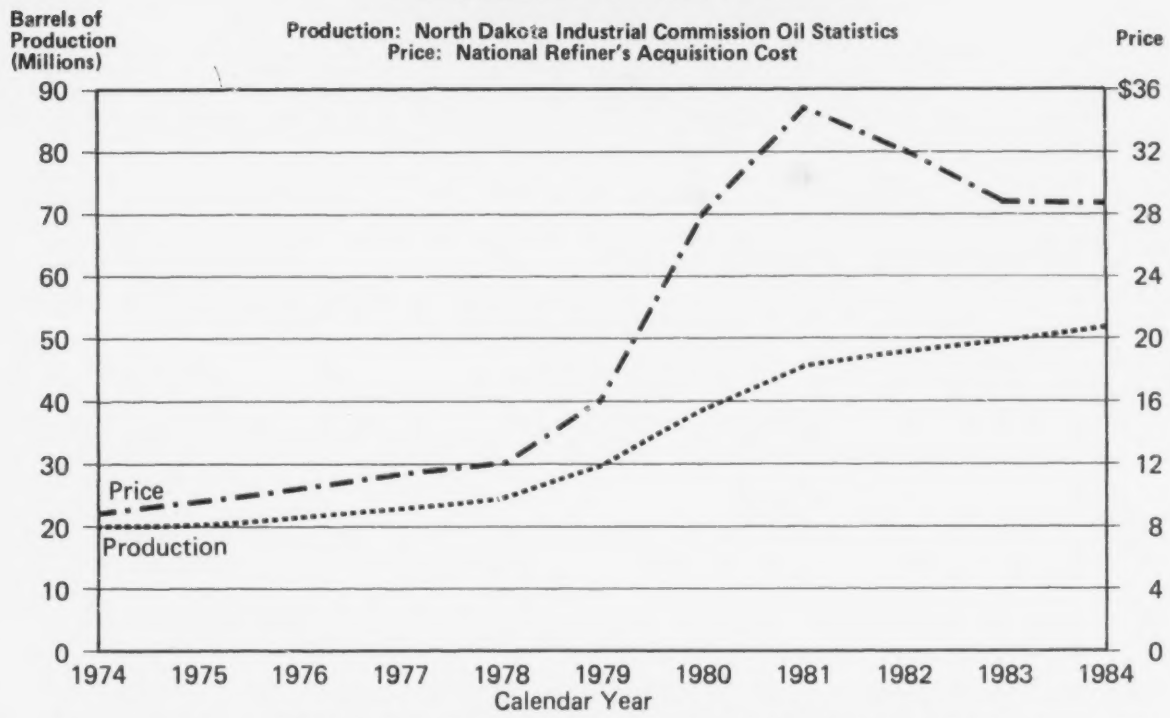


Individual Income Tax
The decrease in individual income tax collections for fiscal years 1982 and 1983 is due to major tax relief provided by a 1980 initiated measure and the 1981 Legislature. First, the initiated oil tax measure enacted by voters included a provision allowing an Energy Cost Relief credit to all individual income taxpayers. The credit enabled taxpayers to subtract up to $100 from their state income tax liability. Second, the 1981 Legislature approved a simplified optional short form (Form 37-S) filing method on which taxpayers multiplied their federal income tax liabilities by 7.5 percent to determine their state income tax liabilities. The standard long form (Form 37) rates were reduced as well. The total effect of these provisions resulted in a significant decrease in individual income tax liabilities for tax years 1981 and 1982, payable in fiscal years 1982 and 1983.

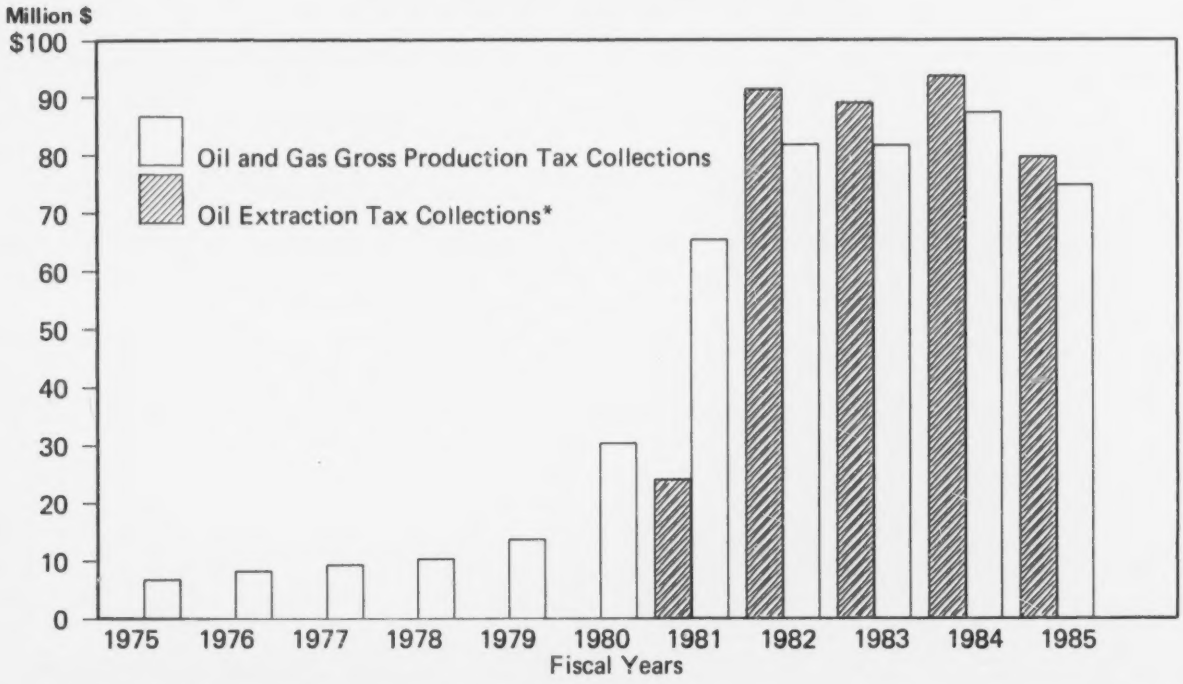
The 1983 Legislature suspended the Energy Cost Relief Credit and temporarily raised the rates on both Form 37 (long form) and Form 37-S (short form), beginning with the tax year 1983. These temporary measures were made permanent by the 1985 Legislature.

Corporate Income Tax
The decrease in corporate income tax collections for fiscal years 1982 and 1983 is due to tax relief provided by the 1981 Legislature. The increase in collections in FY-1984 and FY-1985 is due to an increase in corporate income, increased audit activity, increased tax rates and a modification to the filing schedule. The tax rates were increased by 50% beginning in tax year 1983. Taxpayers whose estimated tax due can be expected to exceed $5,000 are required to file quarterly estimated tax payments for tax years beginning after December 31, 1983. The one-time positive revenue impact associated with the implementation of the quarterly estimated payment requirement is the primary cause for the significant collection increase in fiscal year 1985.

ANNUAL CRUDE OIL PRODUCTION IN NORTH DAKOTA AND DOMESTIC OIL PRICE PER BARREL
During Calendar Years 1974 to 1984



OIL AND GAS GROSS PRODUCTION AND OIL EXTRACTION TAX GROSS COLLECTIONS
During Fiscal Years June 30, 1975 to 1985



SOURCE: North Dakota State Tax Department Biennial Reports, Gross Monthly Collections by Tax Commissioner and Comparative Statement of Collections.

*The oil extraction tax became effective January 1, 1981, as the result of an initiated measure passed by the citizens of North Dakota in November, 1980. The oil extraction tax rate is 6½% of the gross value at the well of oil extracted in North Dakota. The value of oil produced from a stripper well property (an average daily production of 10 barrels per well or less) is exempt from the tax, as is the royalty owners interest in the first 100 barrels of average daily production per well. Oil extraction tax collections for FY-1981 as shown above are taxes levied in January, February and March, 1981, and collected in the following quarter. Those revenues were distributed 45% to the State School Aid Program, 10% to a trust fund and 45% to the State General Fund. The 1981 Legislature changed the distribution formula so that the oil extraction tax for the 1981-83 biennium would be allocated 60% to the State School Aid Program, 10% to the Resources Trust Fund, and 30% to the State General Fund. During the 1983 Legislative Session, the distribution formula was modified to allocate 90% of the revenue to the State General Fund. The amount allocated to the Resources Trust Fund remained at 10%.

NORTH DAKOTA STATE TAX DEPARTMENT
NET OIL AND GAS GROSS PRODUCTION TAX REVENUE DISTRIBUTIONS
1983-85 BIENNIUM

County	Fiscal Year 1984				Fiscal Year 1985		
	Total	General Fund	County	Road Funds	Total	General Fund	County
Billings	$26,660,642.45	$21,457,843.26	$3,898,973.51	$1,303,825.68	$21,808,070.82	$18,049,165.73	$3,758,905.09
Bottineau	3,143,948.29	1,758,907.79	1,230,649.63	154,390.87	3,228,773.32	1,810,562.60	1,418,210.72
Bowman	2,265,969.58	1,117,282.92	1,054,866.44	93,820.22	2,432,318.28	1,192,197.98	1,240,120.30
Burke	1,960,599.58	907,949.99	939,379.00	113,270.59	2,194,700.97	1,047,841.36	1,146,859.61
Divide	1,101,566.90	429,754.80	625,876.44	45,935.66	1,525,223.06	624,145.36	901,077.70
Dunn	6,357,403.87	4,161,298.26	1,873,988.38	322,117.23	6,040,317.60	4,066,392.56	1,973,925.04
Golden Valley	761,513.50	297,532.53	426,094.82	37,886.15	801,579.55	326,114.18	475,465.37
Hettinger	44,236.76	17,598.93	25,271.57	1,366.26	32,384.65	12,518.23	19,866.42
McHenry	50,251.00	19,873.12	29,087.94	1,289.94	48,093.64	19,807.16	28,286.48
McKenzie	23,196,693.94	17,875,253.41	4,306,098.86	1,015,341.67	26,530,614.93	21,331,289.26	5,199,325.67
McLean	23,174.15	9,194.92	13,904.50	74.73	120.00	48.00	72.00
Mountrail	777,244.36	308,367.15	432,400.95	36,476.25	789,737.99	308,380.63	481,357.36
Renville	1,754,401.58	809,635.09	861,882.47	82,884.02	2,296,930.03	1,113,582.00	1,183,348.03
Slope	114,657.67	43,643.59	64,834.88	6,179.20	149,377.41	62,981.98	86,395.43
Stark	2,926,572.51	1,513,480.98	1,252,130.54	160,960.99	2,528,121.46	1,302,130.18	1,225,991.28
Ward	116,263.54	44,975.23	65,227.34	6,060.97	143,648.34	56,575.77	87,072.57
Williams	8,389,184.05	5,783,707.83	2,209,720.13	395,756.09	9,237,087.59	6,621,226.03	2,615,861.56
Penalty/Interest	338,895.21	338,895.21			340,055.08	340,055.08	
TOTAL DISTRIBUTIONS	$79,983,218.93	$56,895,195.01	$19,310,387.40	$3,777,636.52	$80,127,154.72	$58,285,014.09	$21,842,140.63

SOURCE: Collection data from Tax Department Records and distribution data from State Treasurer's Office.

NOTE: The figures represent actual revenue distributions which are calculated from gross fiscal year collections less the June 30 fund balance of the current fiscal year plus the June 30 fund balance of the preceding fiscal year less all refunds for the fiscal year.

Oil and Gas Gross Production Tax

The gross value of oil or gas production at the well, less any part which is specifically exempt, is taxed at a rate of 5% in lieu of property taxes on the well. During the 1983-85 biennium, the tax was remitted to the Tax Commissioner on a quarterly return for production in April, May and June of 1983 and on a monthly return for the production months thereafter.

Four-fifths of the oil and gas gross production tax revenue is distributed between the county in which the oil or gas is produced and the State General Fund according to a distribution schedule that varies with the level of production in a county. For the 1983-85 biennium:

The first $1 million each year is distributed 75% to the county and 25% to the General Fund; the second $1 million, 50% to the county, 50% to the General Fund; amounts over $2 million, 25% to the county, 75% to the General Fund. However, the amount that any one county can receive will be limited according to population as follows: Up to 3,000, no more than $3.2 million in FY 1982 and $3.8 million in FY 1983; between 3,000 and 6,000, no more than $3.5 million in FY 1982 and $4.0 million in FY 1983; 6,000 or greater, no more than $4 million in FY 1982 and $4.5 million in FY 1983. Within the county, the allocation will be 45% to the county general fund, 35% to the school districts within the county, and 20% to the incorporated cities, beginning in the 1981-83 biennium.

The remaining one-fifth share of the gross production tax revenue is distributed to the State General Fund. However, in fiscal year 1984, the one-fifth share of revenue from production in April, May and June of 1983 was distributed to the highway tax distribution fund and township road and bridge fund pursuant to legislation enacted by the 1981 Legislature.

NORTH DAKOTA STATE TAX DEPARTMENT
COAL CONVERSION FACILITIES TAX
DISTRIBUTION OF COLLECTIONS
1983-85 BIENNIUM

	SEPT. 30, 1983	DEC. 31, 1983[1]	MAR. 31, 1984[1]	JUNE 30, 1984[1]	TOTAL FY-84	SEPT. 30, 1984	DEC. 31, 1984	MAR. 31, 1985	JUNE 30, 1985	TOTAL FY-85
MCLEAN	$105,823.63	$271,637.45	$.00	$170,352.72	$547,813.80	$130,162.65	$119,538.40	$159,063.01	$144,629.53	$553,393.59
MERCER	132,989.00	307,012.41	.00	296,091.41	736,092.82	161,621.25	266,703.93	540,772.26	627,695.64	1,596,793.08
OLIVER	79,653.87	177,498.47	.00	78,738.45	335,890.79	57,461.25	90,359.33	67,539.67	98,485.71	313,845.96
TOTAL COUNTIES	318,466.50	756,148.33	.00	545,182.58	1,619,797.41	349,245.15	476,601.66	767,374.94	870,810.88	2,464,032.63
STATE GENERAL FUND	1,087,286.46	1,338,064.59	2,460,595.10	2,330,403.45	7,216,349.60	1,833,878.90	2,159,517.10	2,964,701.04	3,574,244.04	10,532,341.08
TOTAL REVENUES DISTRIBUTED	$1,405,752.96	$2,094,212.92	$2,460,595.10	$2,875,586.03	$8,836,147.01	$2,183,124.05	$2,636,118.76	$3,732,075.98	$4,445,054.92	$12,996,373.71

Coal Conversion Facilities Tax

Electric generating plants which use coal and have a single generating unit with the capacity of 120,000 kilowatts or more were taxed at the rate of 0.50 mill per kilowatt hour of electricity produced for sale. This tax is in lieu of all ad valorem taxes except on land. Other energy installations which are subject to the coal conversion facilities tax include but are not limited to coal gasification, coal liquefaction, and the manufacture of fertilizer and other products, and which uses or is designed to use over 500,000 tons of coal per year. The coal gasification plant paid a tax of 2.5% of the monthly gross receipts or 10¢ per 1000 cubic feet of gas produced for sale, whichever was greater.

For the portion from electrical generating plants, 35% of the revenue from .25 mill per kilowatt hour was allocated to the county in which the facility was located. For the portion from the coal gasification plant, 35% of the revenue was allocated to the county in which the facility was located. The moneys received by the counties were distributed 30% to incorporated cities on the basis of the most recent census, 30% to the school districts within the county on the basis of average daily membership and 40% to the county general fund. The remaining electrical generating plant revenue (65% of the revenue from .25 mill per kilowatt hour and 100% of the revenue from the other .25 mill per kilowatt hour) and the remaining coal gasification plant revenue (65% of total revenue) was deposited in the State General Fund.

[1] Because the State Treasurer's coal conversion tax revenue distribution during the quarter ending December 31, 1983 was greater than that allowed by statutory formula, the distributions to counties were reduced in the quarters ending March 31, 1984 and June 30, 1984. The distributions to the general fund were adjusted accordingly.

SOURCE: Records from the Tax Department and State Treasurer's Office.

NORTH DAKOTA STATE TAX DEPARTMENT

COAL SEVERANCE TAX
TAXABLE TONNAGES

1983-85 Biennium

QUARTER SEVERED	BOWMAN	BURKE	GRANT	MCLEAN	MERCER	OLIVER	STARK	WARD	WILLIAMS	TOTAL
1st QTR FY-84	465,616.60	6,808.00	728.00	1,225,089.00	1,038,802.68	2,410,999.92	45,315.00	40,099.00	14,710.00	5,248,168.20
2nd QTR FY-84	630,574.53	33,213.00	2,233.00	1,493,108.00	743,446.01	2,331,783.28	53,955.00	75,291.00	10,090.00	5,373,693.82
3rd QTR FY-84	549,829.26	20,629.00	3,457.00	1,333,387.00	751,989.04	2,382,143.46	57,180.00	69,299.00	.00	5,167,913.76
4th QTR FY-84	675,883.48	150.00	3,381.00	1,453,155.00	1,033,738.70	772,029.65	57,540.00	45,499.00	7,308.00	4,048,684.83
TOTAL FY-1984	2,321,903.87	60,800.00	9,799.00	5,504,739.00	3,567,976.43	7,896,956.31	213,990.00	230,188.00	32,108.00	19,838,460.61
1st QTR FY-85	463,811.43	451.00	2,263.00	1,575,181.00	1,522,971.38	1,825,173.37	48,870.00	22,232.00	24,299.50	5,485,252.68
2nd QTR FY-85	727,229.08	3,320.00	424.00	1,753,587.00	2,211,073.08	1,970,090.42	46,290.00	66,816.00	8,396.00	6,787,225.58
3rd QTR FY-85	588,512.12	4,388.00	263.00	1,525,845.00	2,547,670.07	2,085,721.90	60,900.00	75,335.00	1,888.00	6,890,523.09
4th QTR FY-85	587,704.09	521.00	.00	1,594,385.00	2,640,615.27	1,333,384.35	70,410.00	53,081.00	18,018.00	6,298,118.71
TOTAL FY-1985	2,367,256.72	8,680.00	2,950.00	6,448,998.00	8,922,329.80	7,214,370.04	226,470.00	217,464.00	52,601.50	25,461,120.06
1983-85 BIENNIUM TOTAL	4,689,160.59	69,480.00	12,749.00	11,953,737.00	12,490,306.23	15,111,326.35	440,460.00	447,652.00	84,709.50	45,299,580.67

TAX RATE: The Coal Severance tax rates for the 1983-85 biennium were as follows: For production occurring in 1st and 2nd quarters, FY-84, $1.02 per ton; 3rd and 4th quarters, FY-84, $1.03 per ton; all of FY-85, $1.04 per ton.

NOTE: 4th Quarter FY-1983 production was not included in the 1981-83 Biennial Report due to the quarterly filing method. Tons of coal severed during 4th quarter, FY-1983 are as follows: Bowman, 575,114; Burke, 458; McLean, 1,208,535; Mercer, 461,749; Oliver, 1,742,765; Stark, 65,695; Ward, 36,956; Williams, 6,021; Total, 4,097,293.

SOURCE: State Tax Department records

NORTH DAKOTA STATE TAX DEPARTMENT

COAL SEVERANCE TAX
DISTRIBUTION OF COLLECTIONS

1983-85 Biennium

	SEPT. 30, 1983	DEC. 31, 1983	MAR. 31, 1984	JUNE 30, 1984	TOTAL FY-84	SEPT. 30, 1984	DEC. 31, 1984	MAR. 31, 1985	JUNE 30, 1985	TOTAL FY-85
BOWMAN	$116,173.03	$94,985.78	$128,637.21	$113,264.83	$453,060.85	$139,232.00	$96,472.78	$151,263.64	$122,410.52	$509,378.94
BURKE	92.52	1,388.83	6,775.45	4,249.58	12,506.38	30.89	93.81	690.56	912.70	1,727.96
DIVIDE	.00	.00	.00	671.14	671.14	.00	.00	.00	.00	.00
GRANT	.00	350.51	457.76	712.14	1,520.41	698.71	466.25	88.19	54.70	1,307.85
MCLEAN	244,124.07	249,918.16	304,594.03	274,677.73	1,073,313.99	299,349.92	327,637.65	364,746.10	317,375.76	1,309,109.43
MERCER	92,290.29	210,018.95	151,662.98	151,518.66	605,490.88	212,950.17	316,778.05	459,903.20	529,915.38	1,519,546.80
OLIVER	350,244.84	491,843.98	475,683.79	490,721.55	1,808,494.16	159,038.11	379,636.05	409,778.81	433,830.16	1,382,283.13
STARK	13,270.39	9,244.25	11,006.81	11,779.08	45,300.53	11,853.24	10,164.96	9,628.32	12,667.20	44,313.72
WARD	7,465.11	8,180.20	15,408.68	14,226.27	45,280.26	9,372.79	4,624.26	13,897.73	15,669.68	43,564.46
WILLIAMS	1,216.25	3,000.84	2,058.36	.00	6,275.45	1,505.45	5,054.30	1,746.37	392.70	8,698.82
TOTAL COUNTIES	824,876.50	1,068,931.50	1,096,285.07	1,061,820.98	4,051,914.05	834,031.28	1,140,928.11	1,411,742.92	1,433,228.80	4,819,931.11
IMPACT OFFICE	1,443,533.85	1,870,630.17	1,918,498.90	1,858,186.70	7,090,849.62	1,459,554.79	1,996,624.17	2,470,550.11	1,008,150.39	6,934,879.46
LAND BOARD	618,657.36	801,698.65	822,213.81	796,365.73	3,038,935.55	625,523.50	855,696.09	1,058,807.20	1,074,921.61	3,614,948.40
STATE GENERAL FUND	1,729,544.63	1,635,703.73	1,684,729.56	1,384,192.09	6,434,170.01	1,419,497.99	1,832,923.10	2,236,960.01	4,011,581.54	9,500,962.64
TOTAL REVENUES DISTRIBUTED	$4,616,612.34	$5,376,964.05	$5,521,727.34	$5,100,565.50	$20,615,869.23	$4,338,607.56	$5,826,171.47	$7,178,060.24	$7,527,882.34	$24,870,721.61

SOURCE: Records from the Tax Department and State Treasurer's Office.

NORTH DAKOTA STATE TAX DEPARTMENT
COAL SEVERANCE TAX

The Coal Severance Tax was enacted by the 1975 North Dakota Legislature. This tax is applied to coal severed from the ground on a rate per ton basis. The 1975 law provided for a 50¢ per ton tax with an escalator clause that increased the tax 1¢ per ton for each 3-point increase in the Wholesale Price Index. The 1975 law was made effective July 1, 1975.

The revenues collected during the 1975-77 Biennium were distributed according to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 30% to a special trust fund to be administered by the State Land Board.
3. 5% to coal-producing counties.
4. 30% to the State General Fund.

The 1975 law was replaced with the 1977 law, changing the rate and the distribution formula. The 1977 law, effective July 1, 1977, provided for a 65¢ per ton tax with an escalator clause that increased the tax 1¢ per ton on a quarterly basis for every one point increase in the Wholesale Price Index.

The 1977 law also changed the distribution of revenues to the following:

1. 35% is allocated to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 15% is allocated to a special trust fund to be administered by the State Land Board.
3. 20% is allocated to coal-producing counties.
4. 30% is allocated to the State General Fund.

The 1977 law was replaced with the 1979 law. The 1979 law, effective July 1, 1979, provides for an 85¢ per ton tax with an escalator that will increase the tax 1¢ per ton on a semi-annual basis for every four point increase in the Wholesale Price Index (now known as the Producer Price Index). The distribution of revenues remains the same.

The 1981 Legislature exempted from the coal severance tax coal used by the state or any of its political subdivisions and coal used for heating buildings within the state. However, coal used for heating purposes is subject to the sales tax.

	FY-84	FY-85
Nontaxable Tonnages Severed	263,893	280,813

TRANSMISSION LINE TAX COLLECTIONS

	1981-83 Biennium		1983-85 Biennium	
	FY-82	FY-83	FY-84	FY-85
Transmission Line Tax	$322,204.50	$322,062.75	$352,066.50	$374,744.25

Collections represent payments made by cooperatives that owned or operated electrical transmission lines of 230 kilovolts or larger. They were taxed at the rate of $225.00 per mile.

SOURCE: Property Tax Division, N.D. State Tax Department.

RURAL ELECTRIC COOPERATIVES AND MUTUAL AND COOPERATIVE TELEPHONE COMPANIES

Rural electric cooperatives are nonprofit cooperative corporations engaged in the distribution or transmission of electric energy primarily for consumption in rural areas. Rural electric cooperatives also include those nonprofit cooperative corporations engaged in the generation of electric energy primarily for consumption in rural areas. The electrical energy generating units of such plants are under 100,000 kilowatts of generating capacity. Such plants are taxable pursuant to Chapter 57-33, N.D.C.C.

Rural electric cooperatives are taxed at 1% of their gross receipts each year for the first 5 years and 2% each year thereafter in lieu of taxes on all property except land. The tax of each rural electric cooperative is certified by the Tax Commissioner to the counties for collection and is allocated by the county auditor to the taxing district in which the rural electric line or plant, as the case may be, is located.

Mutual and cooperative telephone companies are taxed at a graduated rate. The tax of each company is certified by the Tax Commissioner to the counties and apportioned to the school districts in which its telephones are located.

TAXES CERTIFIED TO COUNTIES FOR COLLECTION FOR THE YEARS OF:*

	1981	1982	1983	1984
Rural Electric Cooperative	$2,312,017.25	$2,766,087.10	$3,791,346.50	$4,640,492.15
Mutual & Co-op Telephone Co.	372,761.03	440,087.83	486,128.10	512,452.75

*These taxes are certified in the fall of the indicated years and payable in the following year.

SOURCE: Property Tax Division, N. D. State Tax Department.

SPECIAL FUELS TAX AND MOTOR VEHICLE FUEL TAX COLLECTIONS, GALLONAGE AND DISBURSEMENTS
1983-85 Biennium

	FY-84	FY-85
SPECIAL FUELS TAX COLLECTIONS		
Special Fuels Tax (13¢)	$12,027,164.70	$12,568,251.54
Special Fuels Tax (8¢)	553,145.15	492,472.98
Special Fuels Excise Tax (2¢)	6,084,200.75	5,751,403.34
Special Fuels License Fees Collected	422,500.74	474,710.12
Penalty & Interest Collected	16,156.18	21,673.09
Total Collections	$19,103,167.52	$19,308,511.07
Net Refunds Paid	777,414.64	1,141,934.67
Net Special Fuels Tax & Fees	$18,325,752.88	$18,166,576.40
GALLONAGE - SPECIAL FUELS		
Gallons on Which 13¢ Was Paid	96,497,796.00	97,696,164.00
Gallons on Which 8¢ Was Paid	7,287,220.00	5,978,933.00
Gallons on Which 2% Was Paid	355,187,079.00	328,613,914.00
Gallons on Which Tax Was Refunded	11,570,076.00	12,761,245.00
Total Net Gallons on Which 2%, 8¢, or 13¢ Tax Was Paid	447,402,019.00	419,527,766.00
SPECIAL FUELS TAX DISBURSEMENTS		
Earmarked for Refund	$826,394.15	$1,061,326.24
Highway Distribution Fund, 2%, 8¢ or 13¢ Tax	17,079,625.25	16,967,686.92
Township Highway Construction Fund, 1¢ Tax	836,850.66	948,601.73
Aeronautics Commission Construction Fund, 4% of Jet Fuel	237,484.71	269,626.20
Aeronautics Commission Special Fund, 8¢	122,812.75	61,269.98
Total Disbursements	$19,103,167.52	$19,308,511.07
MOTOR VEHICLE FUEL TAX COLLECTIONS		
Motor Vehicle Fuel Tax 13¢	$43,884,605.59	$44,083,890.35
Aviation Fuel Tax 8¢	200,410.69	211,273.87
Gasohol Tax, 9¢, 7¢	368,242.00	588,245.13
One-Half Cent Tax Assigned Gallons (Agri Derived Fuel Tax Fund)	67,962.77	63,959.98
1¢ - Tax on Tax Assigned Gallons (Township Fund)	136,397.67	127,065.98
Penalty and Interest Collected	22,084.92	52,994.53
Total Collections	$44,679,703.64	$45,127,429.84
Net Refunds Paid	3,167,944.42	3,815,475.62
Net Motor Vehicle Fuel Tax	$41,511,759.22	$41,311,954.22
GALLONAGE - MOTOR VEHICLE FUEL		
Gallons of Which 13¢ Was Paid	360,638,497.00	345,276,999.00
Gallons on Which 8¢ Was Paid	2,542,385.00	2,695,677.00
Gallons on Which 7¢ Was Paid	4,743,557.00	8,015,536.00
Gallons on Which Tax Was Refunded	37,791,348.00	34,937,192.00
Net Gallons on Which Tax Was Paid	330,133,091.00	321,051,020.00
MOTOR VEHICLE FUEL TAX DISBURSEMENTS		
Earmarked for Operating	$327,000.00	$327,000.00
Earmarked for Refunds	2,900,000.00	3,875,000.00
Agri Derived Fuel Tax Fund (One-Half Cent)	208,160.37	226,953.34
Township Road Fund 1¢	3,452,215.65	3,629,156.48
Highway Distribution Fund 7¢, 9¢, 13¢	37,592,157.18	36,933,045.88
Aeronautics Commission Special Fund 8¢ (Aviation Fuel)	131,171.44	59,853.99
Aeronautics Commission Construction Fund (4%) (Aviation Fuel)	68,999.00	76,419.88
Total Disbursements	$44,679,703.64	$45,127,429.57

Special Fuels and Motor Vehicle Fuel Taxes

A per gallon tax is levied on the sale or delivery to a user of all special fuels except those used for heating, agricultural, railroad purposes, or for industrial purposes other than public funded projects. The tax rate was 13¢ per gallon during the 1983-85 biennium. The tax is refundable when used for nonhighway purposes. A tax of 2% is levied on the sale of all special fuels which is exempt from the per gallon tax. The 2% tax is not refundable.

Motor fuel (gasoline) sold to persons other than licensed dealers is taxed at a rate, effective for the 1983-85 biennium, of 13¢ per gallon. This tax is refundable when the fuel is used for agricultural or industrial purposes other than public funded projects.

Effective January 1, 1983, refunds were reduced by ½¢ per gallon on all tax refundable fuel. The ½¢ tax is earmarked for an agricultural alcohol commission to promote agriculturally derived alcohol blended motor fuels. Also, effective for purchases made during the 1983-85 biennium, refunds were reduced by an additional 1¢ per gallon on all tax refundable fuels. The 1¢ tax is earmarked for distribution to township road and bridge fund.

The motor fuel and special fuels taxes are administered by the Tax Commissioner. A small part of the fuel tax collections is set aside to pay for administration of the tax and to allow for refunds. The remaining fuel tax collections are transferred to the Highway Tax Distribution Fund and distributed by the State Treasurer.

In the 1983-85 biennium, the gasohol tax rate was 9¢ per gallon from July 1, 1983 through December 31, 1983; 8¢ per gallon from January 1, 1984 through December 31, 1984; and 7¢ per gallon from January 1, 1985 through June 30, 1985. The gasohol tax is refundable when used for agricultural purposes.

NORTH DAKOTA STATE TAX DEPARTMENT

BANKS AND BUILDING AND LOAN ASSOCIATIONS

Banks and building and loan associations are taxed at 5% of their net income for the preceding year in lieu of all taxes except motor vehicle fuel and special fuel taxes, sales and use taxes, including motor vehicle excise taxes, and taxes upon real and personal property.[1] The tax of each bank and building and loan association is certified by the Tax Commissioner to the counties for collection and is apportioned to the state, county and local taxing districts in which the bank or building and loan association is located.

TAXES CERTIFIED TO COUNTIES FOR THE YEARS:[2]

	1979	1980	1981	1982	1983
Banks	$2,733,414.68	$3,241,720.31	$3,282,848.65	$3,012,831.04	$3,225,732.19
Building & Loan Associations	558,956.41	43,630.00	2,833.20	500.00	350.00

[1]There is an additional 2% business privilege tax on net income. The revenue from this tax is placed in the State General Fund. Revenue from this tax is not included in the above figures.

[2]Taxes are certified to the counties on August 1 of the following year. They are required to be remitted to the counties by December 31 of the certification year.

SOURCE: Income Tax Division, N. D. State Tax Department.

BUSINESS AND CORPORATION PRIVILEGE TAX COLLECTIONS

1981-83 Biennium		1983-85 Biennium	
FY-82	FY-83	FY-84	FY-85
$6,062,458.37	$1,968,952.94	$1,945,519.48	$1,815,946.15

Banks and Building and Loan Associations are required to pay a 2% business privilege tax. Revenues are placed in the State General Fund.

SOURCE: Comparative Statement of Collections, N. D. State Tax Department.

CIGARETTE AND TOBACCO PRODUCTS TAX COLLECTIONS

	1981-83 Biennium		1983-85 Biennium	
	FY-82	FY-83	FY-84	FY-85
3¢ per package cigarette tax distributed to cities on population basis	$2,360,090.97	$2,258,061.02	$2,112,569.52	$2,007,212.33
9¢/15¢ per package cigarette tax distributed to State General Fund*	7,080,272.09	7,930,364.05	10,562,835.54	10,036,059.31
11% of the wholesale price of tobacco products distributed to State General Fund	283,585.55	304,214.19	323,657.31	346,207.16

*The cigarette tax was increased effective April 1, 1983, raising the State General Fund tax from 9¢ to 15¢ per package. Also, for the sale of larger size cigarette packages the city/state general fund cigarette tax breakdown is as follows: City 3¾¢ and state general fund 18¾¢. The first collections received from the sale of larger size cigarette packages was in the month of June, 1983.

SOURCE: Comparative Statement of Collections, N. D. State Tax Department.

AIRLINE TAX

Operating properties of air transportation companies are assessed by the State Board of Equalization with taxes computed by the Tax Commissioner and certified to the State Treasurer for collection. The taxes upon air transportation companies are allocated by the State Treasurer to the city or municipal airport authority where such company makes regularly scheduled landings according to the ratio that the annual gross landing weight of the company for such city or municipal airport authority bears to the total annual gross landing weight of the company for all cities or municipal airport authorities where it makes regularly scheduled landings; these taxes are to be used exclusively for airport purposes.

TAXES CERTIFIED TO STATE TREASURER FOR THE YEARS OF:*

	1981	1982	1983	1984
Airlines	$512,679.44	$33,935.50	$45,131.57	$49,076.90

*Airline assessments of real property are determined by the State Board of Equalization in August of each year. The tax due amounts are computed in the spring of the following year using the average mill rate for cities operating airports served by scheduled airlines. Due to a North Dakota Supreme Court decision, personal property of airlines may not be assessed in assessment year 1982 and the assessment years thereafter.

SOURCE: Property Tax Division, N. D. State Tax Department.

NORTH DAKOTA TAX DEPARTMENT
ESTATE TAXES ASSESSED*
1985-87 Biennium

	FY - 1984			FY - 1985		
	TAX (Chapter 57-37)	TAX (Chapter 57-31.1)	TOTAL TAX State & County **	TAX (Chapter 57-37)	TAX (Chapter 57-31.1)	TOTAL TAX State & County **
Adams	$.00	$7,429.66	$7,429.66	$.00	$11,574.48	$11,574.48
Barnes	.00	28,017.83	28,017.83	.00	22,147.28	22,147.28
Benson	.00	16,102.92	16,102.92	.00	17,052.07	17,052.07
Billings	.00	8,540.34	8,540.34	626.86	82.18	709.04
Bottineau	75.00	19,260.35	19,335.35	.00	48,778.84	48,778.84
Bowman	.00	20,181.52	20,181.52	128.01	69,597.81	69,725.82
Burke	.00	49,113.32	49,113.32	632.50	58,898.27	59,530.77
Burleigh	23,119.66	55,128.52	78,248.18	.00	129,472.48	129,472.48
Cass	930.00	195,892.53	196,822.53	.00	230,216.60	230,216.60
Cavalier	.00	47,281.02	47,281.02	103.00	1,706.80	1,809.80
Dickey	.00	706.03	706.03	.00	25,154.52	25,154.52
Divide	38.00	69,893.51	69,931.51	.00	63,574.92	63,574.92
Dunn	.00	23,228.88	23,228.88	130.34	11,875.70	12,006.04
Eddy	.00	26,358.76	26,358.76	.00	41,848.78	41,848.78
Emmons	.00	.00	.00	.00	760.98	760.98
Foster	.00	8,469.90	8,469.90	.00	.00	.00
Golden Valley	.00	4,535.74	4,535.74	.00	24,021.46	24,021.46
Grand Forks	64.49	50,221.86	50,286.35	384.80	213,075.66	213,460.46
Grant	.00	56,410.84	56,410.84	.00	793.88	793.88
Griggs	.00	3,780.00	3,780.00	.00	30,278.44	30,278.44
Hettinger	.00	30,227.24	30,227.24	.00	2.38	2.38
Kidder	.00	5,274.00	5,274.00	.00	16.62	16.62
LaMoure	.00	34,451.58	34,451.58	.00	8,549.84	8,549.84
Logan	.00	4,670.40	4,670.40	.00	19,926.38	19,926.38
McHenry	3,600.78	6,304.97	9,905.75	.00	47,814.21	47,814.21
McIntosh	.00	10,877.00	10,877.00	.00	771.82	771.82
McKenzie	221.03	34,801.85	35,022.88	9.00	12,550.27	12,559.27
McLean	.00	6,710.76	6,710.76	.00	11,487.97	11,487.97
Mercer	.00	24,753.95	24,753.95	.00	18,117.41	18,117.41
Morton	.00	17,273.15	17,273.15	105.88	9,115.86	9,221.74
Mountrail	58.42	28,158.93	28,217.35	1,244.46	9,867.97	11,112.43
Nelson	.00	5,884.52	5,884.52	.00	15,725.31	15,725.31
Oliver	.00	2,412.57	2,412.57	.00	11,665.10	11,665.10
Pembina	.00	130,907.19	130,907.19	168.65	72,324.84	72,493.49
Pierce	989.60	779.18	1,768.78	37.76	7,791.71	7,829.47
Ramsey	.00	39,525.45	39,525.45	65.52	123,368.39	123,433.91
Ransom	.00	9,133.12	9,133.12	.00	31,348.67	31,348.67
Renville	.00	37,572.40	37,572.40	.00	18,610.70	18,610.70
Richland	.00	40,324.36	40,324.36	124.10	33,027.34	33,151.44
Rolette	6,887.41	19,517.00	26,404.41	22.00	30,355.75	30,377.75
Sargent	22.45	21,132.79	21,155.24	.00	8,601.00	8,601.00
Sheridan	.00	882.64	882.64	.00	16,733.37	16,733.37
Sioux	.00	.00	.00	.00	.00	.00
Slope	.00	102.00	102.00	.00	12,785.90	12,785.90
Stark	.00	711,545.64	711,545.64	34.16	167,330.61	167,364.77
Steele	.00	13,821.80	13,821.80	.00	8,678.67	8,678.67
Stutsman	.00	51,523.72	51,523.72	206.68	75,400.89	75,607.57
Towner	.00	43,215.63	43,215.63	.00	66,304.54	66,304.54
Traill	.00	46,719.26	46,719.26	28.00	407,701.22	407,729.22
Walsh	230.00	61,939.12	62,169.12	.00	85,888.42	85,888.42
Ward	.00	97,013.53	97,013.53	701.04	125,099.50	125,800.54
Wells	728.99	10,980.28	11,709.27	.00	.00	.00
Williams	388.44	102,263.61	102,652.05	1,100.00	173,378.12	174,478.12
Miscellaneous	.00	25,384.02	25,384.02	.00	1,732.55	1,732.55
TOTAL	$37,354.27	$2,366,637.19	$2,403,991.46	$5,852.76	$2,632,984.48	$2,638,837.24

*The above schedule indicates only the amount of estate taxes determined in the respective counties and does not reflect any subsequent proration between other counties or municipalities.

**Chapter 57-37 distributes 65% to county and 35% to state. Chapter 57-37.1 distributes 100% to county and cities in the county.

SOURCE: Estate Tax Section – TX-3030 Records, N.D. State Tax Department.

Estate Tax

Property transferred at death, during lifetime in contemplation of death, or in a manner intended to take effect at death is subject to the estate tax. North Dakota does not have a separate gift tax law. The estate tax is administered by the State Tax Commissioner and is imposed on the full and fair market value of the estate less exemptions and deductions. It is not imposed on the individual beneficiary.

Effective for deaths occurring on or after January 1, 1977, North Dakota adopted the provisions of the Federal Tax Reform Act of 1976. In place of the unified credit, North Dakota adopted a $200,000 exemption and a separate rate schedule.

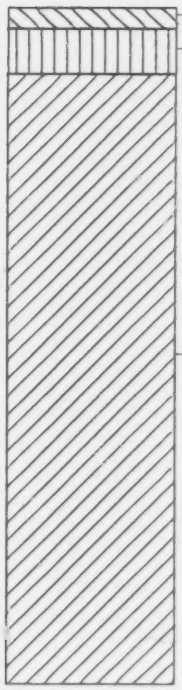
Effective March 16, 1979, the rate of the estate tax shall equal the maximum federal estate tax credit for state death taxes.

Estate tax provisions of the 1981 Economic Recovery Tax Act were adopted by the state effective January 1, 1982.

NORTH DAKOTA STATE TAX DEPARTMENT

SOURCES OF GENERAL AD VALOREM PROPERTY TAXES,
SPECIAL PROPERTY TAXES AND SPECIAL ASSESSMENTS

(Levied in 1983 – Payable in 1984)



SPECIAL PROPERTY TAXES (3.15% of Total)

Telephone (Mutual & Rural)	$ 486,127.33
Mobile Home	1,560,870.72
REA Co-ops	3,813,584.24
Bank	3,012,831.16
Building and Loan Associations	499.15
Woodland	11,684.55
Total	$ 8,885,777.55

UTILITIES (6.72% of Total)

Railroads	$ 1,011,700.88
Telephone	6,308,991.57
Telegraph	23,013.80
Electric, Gas, Water & Heat	4,712,216.51
Pipe Lines	6,915,075.95
Tax Increments	
Total	$ 18,971,008.71

REAL ESTATE (90.13%)*

Rural	$ 99,278,674.67
City	155,059,648.12
Total	$254,195,109.05

GRAND TOTAL (100%) $282,195,109.05

*Includes all special assessments.

SOURCE: 1984 Statistical Report, 1983 Property Taxes Levied, 1984 Property valuation, N. D. State Tax Department.

Property Tax

Real property owned by a corporation, partnership, individual, estate or trust is subject to a tax based on its valuation. The property tax, except the tax on the operating property of railroads and other utilities, is assessed and administered locally. The property tax is collected and distributed by the county to the county, cities, townships, school districts, and other taxing districts. The North Dakota Century Code has provided that assessments be at true and full value and that assessed value be computed at 50% of true and full value. Also, true and full value of agricultural property will now be based upon productivity. Beginning with taxes levied in 1983 (payable in 1984) and thereafter, the assessed value will be 50% of true and full value and taxable value will be a percentage of assessed value according to the percentages established by the Legislature for the various classes of property as follows: residential property at 9%, commercial, railroad and airline property at 10%, agricultural property at 10%, and centrally assessed property other than railroad and airline property at 12% in 1983, 11% in 1984 and 10% thereafter.

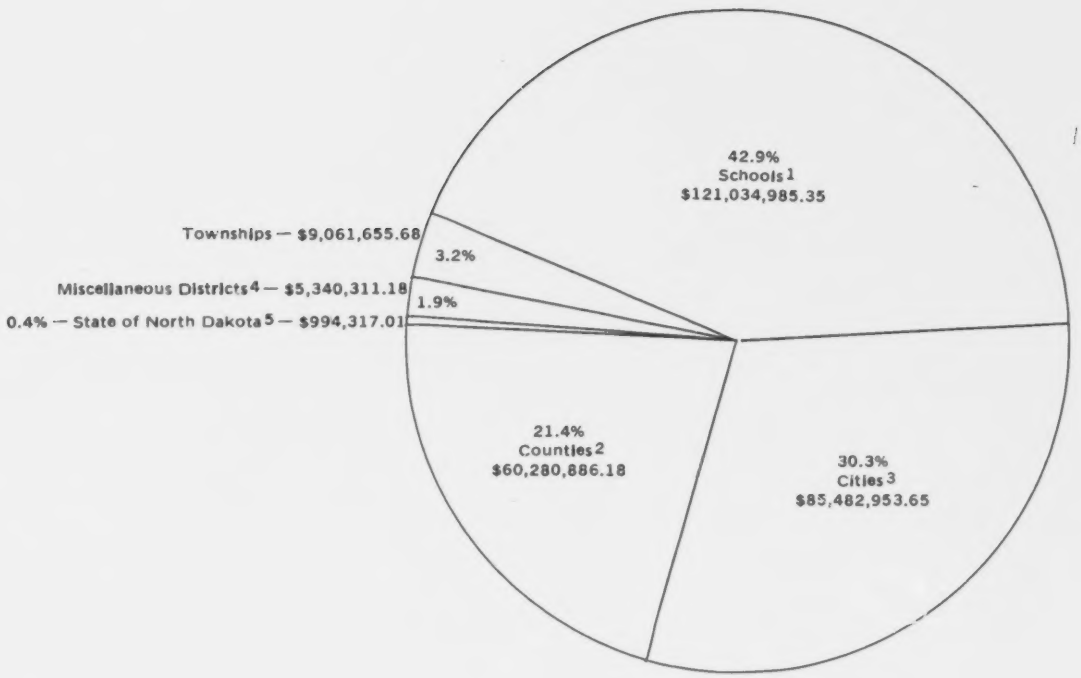
The assessed valuation of railroad and public utility property is centrally determined by the State Board of Equalization. Taxable valuation of railroad and utility property is a percentage of assessed value according to the percentages established by the 1981 Legislature. Mutual or cooperative telephone companies and rural electric cooperatives are subject to a gross receipts tax.

Also instead of a property tax, large electrical generating plants are subject to a tax on electricity produced for sale either through a gross receipts tax or a per kilowatt hour tax. Large transmission lines are taxed on a per mile basis. The taxes on electrical production, gross receipts from electricity production, or large transmission lines are not included in the above.

NORTH DAKOTA TAX DEPARTMENT

DISTRIBUTION OF GENERAL AD VALOREM PROPERTY TAXES, SPECIAL PROPERTY TAXES AND SPECIAL ASSESSMENTS

(Levied in 1983 – Payable in 1984)



GRAND TOTAL – $282,195,109.05

[1]The 1981 Legislature eliminated the county equalization fund for taxes levied in 1981 and thereafter.

[2]Including County Park Districts, County Library, County Airport, Unorganized township.

[3]Including City Park Districts and Special Assessments.

[4]Garrison Divsersion, Water Management Districts, Rural Fire Districts, and All Special Assessments for Rural Districts.

[5]Constitutional one mill levy for the medical center at the University of North Dakota.

SOURCE: 1984 Statistical Report, 1983 Property Taxes Levied, 1984 Property Valuation, N.D. State Tax Department.

NORTH DAKOTA STATE TAX DEPARTMENT

PROPERTY TAX INFORMATION
SENIOR CITIZENS AND DISABLED PERSONS PROPERTY TAX REFUNDS AND CREDITS

Year	Number of Persons Receiving Renter's Refunds	Number of Homeowner's Credits	Homeowner Taxable Value of Property Exempted
1970		4,872	$ 1,588,651
1971		5,463	1,788,326
1972		5,435	1,775,409
1973		5,073	1,623,247
1974	297	5,050	2,148,286
1975	458	5,545	2,948,809
1976	553	6,199	3,039,030
1977	1,380	8,765	5,570,440
1978	2,270	9,851	6,347,442
1979	2,572	10,529	6,569,192
1980	2,590	10,633	7,625,711
1981	2,635	10,158	7,868,922
1982	2,664	9,435	7,156,134
1983	3,133	8,820	6,567,286

In 1969, the North Dakota Legislature enacted a real estate tax credit for senior citizen homeowners with a total annual income of $3,000 or less. In 1973, the Legislature extended the provisions of the credit to include senior citizen renters and raised the maximum income eligibility limit to $3,500. Totally and permanently disabled persons regardless of age who are homeowners or renters were added to the program in 1975. Additional adjustments to the maximum income eligibility limit have been made by the Legislature as follows: 1975 to $5,000, 1977 to $8,000, 1979 to $9,000, and 1981 to $10,000. To be eligible, the senior citizen must be 65 years of age or older in the year the tax was leveid or the rent was paid.

The credit for eligible homeowners is a reduction in the taxable value of the homestead as determined by the following schedule:

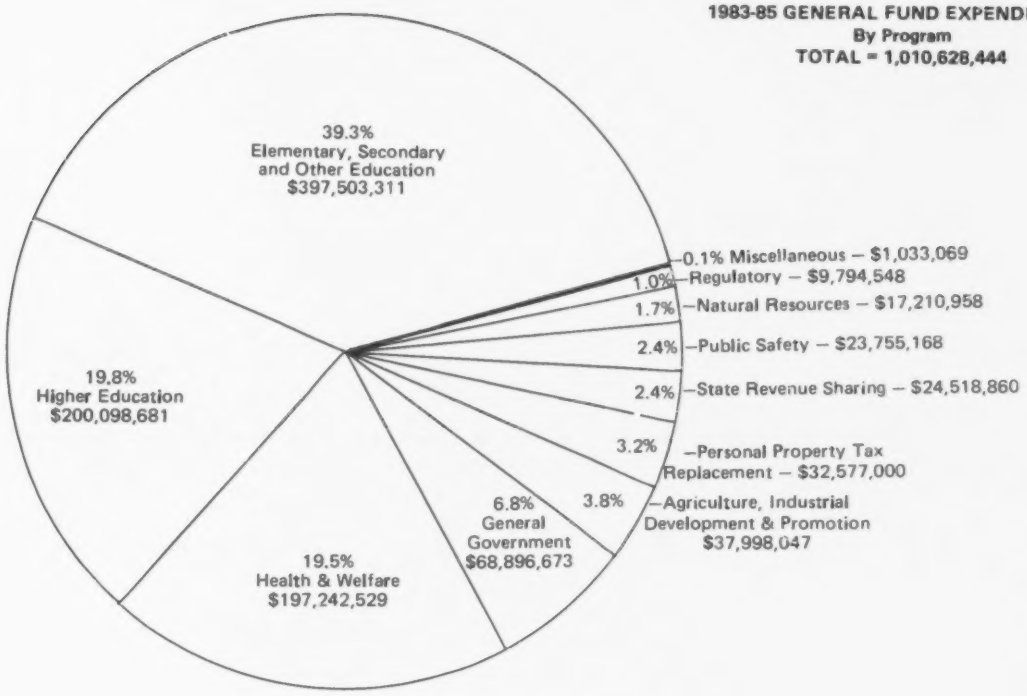
For Taxes Levied in 1983 and 1984 (Payable in 1984 and 1985)

Income of	Reduction	Maximum Reduction
$ 0 - $ 5,500	100%	$2,000
$5,501 - $ 6,500	80%	3,200
$6,501 - $ 7,500	60%	1,200
$7,501 - $ 8,500	40%	800
$8,501 - $10,000	20%	400

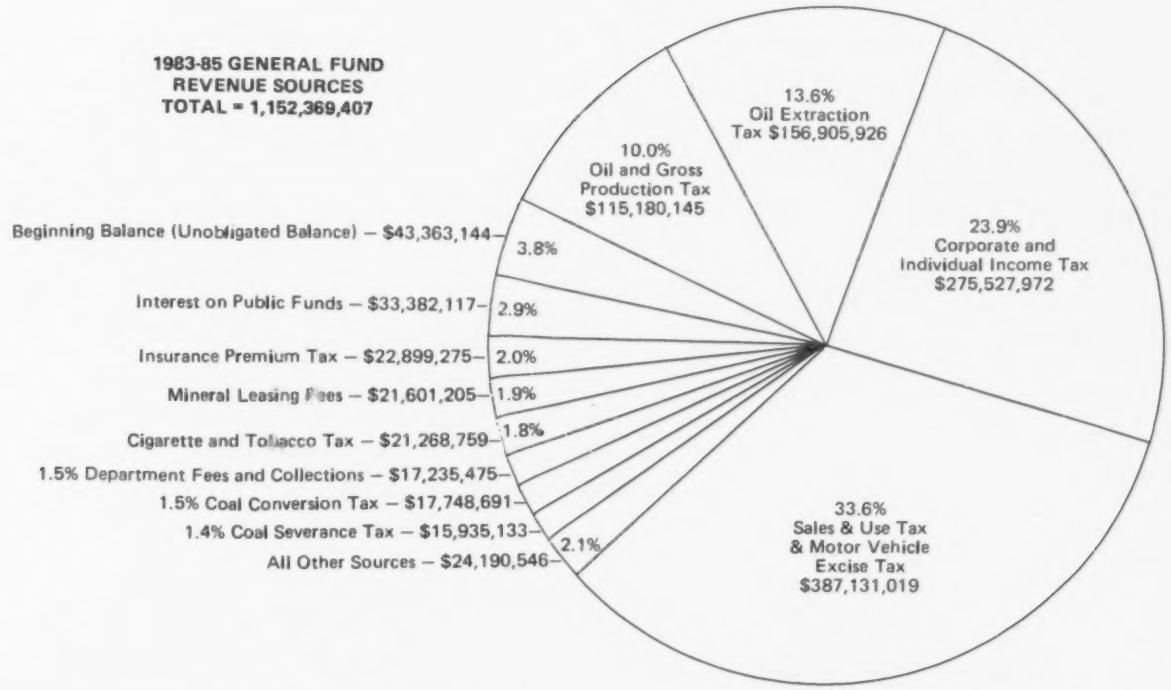
Eligible renters will receive a refund for overpayment of rent when 20% of their total annual rent exceeds 4% of their total annual income. Charges for such services as heat, lights and furniture must be excluded when determining the annual rent payment for the purposes of renter's refund. The maximum refund allowable to a renter is $190.

STATE GENERAL FUND REVENUES AND EXPENDITURES
1983-85 Biennium

1983-85 GENERAL FUND EXPENDITURES
By Program
TOTAL = 1,010,628,444



1983-85 GENERAL FUND REVENUE SOURCES
TOTAL = 1,152,369,407


13.6%
Oil Extraction Tax $156,905,926
10.0%
Oil and Gross Production Tax
$115,180,145
23.9%
Corporate and Individual Income Tax
$275,527,972
33.6%
Sales & Use Tax & Motor Vehicle Excise Tax
$387,131,019
Beginning Balance (Unobligated Balance) – $43,363,144 3.8%
Interest on Public Funds – $33,382,117 2.9%
Insurance Premium Tax – $22,899,275 2.0%
Mineral Leasing Fees – $21,601,205 1.9%
Cigarette and Tobacco Tax – $21,268,759 1.8%
1.5% Department Fees and Collections – $17,235,475
1.5% Coal Conversion Tax – $17,748,691
1.4% Coal Severance Tax – $15,935,133
All Other Sources – $24,190,546 2.1%

SOURCE: Report on the status of the General Fund at the close of the 1983-85 Biennium, Office of Management and Budget, September 1, 1985.

NORTH DAKOTA STATE TAX DEPARTMENT

STATEMENT OF EXPENDITURES

1983-85 Biennium

	Commissioner's Division	Legal Division	Controller's Division	Sales & Special Taxes Division	Income Tax Division	Property & Utility Taxes Division	Homestead Credit Administration	Multistate Tax Commission	State Board of Equalization	Total
Salaries and Wages										
FY 84	$511,736.41	$232,733.61	$595,968.64	$903,150.76	$949,935.22	$135,797.11	$5,213.95	$.00	$10,360.59	$3,344,896.29
FY 85	592,298.88	236,978.67	631,508.31	930,896.93	1,056,822.88	115,353.57	4,546.48	.00	10,675.91	3,579,081.63
Operating Expenses										
FY 84	53,909.21	17,388.49	244,560.27	145,373.77	217,451.16	16,491.49	7,680.88	63,753.40	1,453.22	768,061.89
FY 85	89,139.19	25,227.78	259,062.20	146,218.24	228,381.81	8,920.24	261.46	78,962.45	8,345.48	844,518.85
Equipment										
FY 84	1,879.52	2,601.45	15,066.79	5,215.31	13,898.18	608.95	.00	.00	.00	39,270.20
FY 85	10,239.94	.00	3,465.05	1,504.62	5,296.16	233.00	.00	.00	.00	20,738.77
Data Processing										
FY 84	609,789.29	.00	.00	.00	.00	.00	.00	.00	.00	609,789.29
FY 85	746,216.34	.00	.00	.00	.00	.00	.00	.00	.00	746,216.34
Total										
FY 84	$1,177,314.43	$252,723.55	$855,595.70	$1,053,739.84	$1,181,284.56	$152,897.55	$12,894.83	$63,753.40	$11,813.81	$4,762,017.67
FY 85	$1,437,894.35	$262,206.45	$894,035.56	$1,078,619.79	$1,290,500.85	$124,506.81	$4,807.94	$78,962.45	$19,021.39	$5,190,555.59
TOTAL 83-85	$2,615,208.78	$514,930.00	$1,749,631.26	$2,132,359.63	$2,471,785.41	$277,404.36	$17,702.77	$142,715.85	$30,835.20	$9,952,573.26

SOURCE. Comparative Statement of Disbursements for fiscal years ended June 30, 1984 and June 30, 1985, Controller's Division, North Dakota State Tax Department.

RESOURCES AVAILABLE FROM THE NORTH DAKOTA STATE TAX DEPARTMENT

COMMISSIONER'S DIVISION

Biennial Report of the Tax Commissioner
North Dakota: Where Taxes Work for People
Special Reports and Analyses on North Dakota's Tax Structure
State and Local Taxes in North Dakota: A Comparative Guide

INCOME AND OIL TAXES DIVISION

Banks, Trust Companies and Building and Loan Associations Tax Law Guidelines
Income Tax Law and Rules
Nonresident Withholding Tables for Income Tax
Practitioner's Newsletter
Withholding Information for Employers

PROPERTY TAX DIVISION

Assessor's Education Program Brochure
Assessor's Home Study Manuals
Assessors' Manual
Geothermal, Solar, or Wind Energy Devices Brochure
North Dakota New Industry Tax Exemptions Brochure
Proceedings of the State Board of Equalization
Property Tax Credit for Senior Citizens or Disabled Persons Brochure
Property Tax Exemption for Improvements to Residential or Commercial Buildings or Structures Brochure
Property Tax Statistical Report
Property Taxation Manual

SALES AND SPECIAL TAXES DIVISION

Estate Tax Law, Rules and Regulations Guidelines
Motor Vehicle Fuel Tax Law, Rules and Regulations
Motor Vehicle Fuel Tax Newsletter
Sales and Use Tax Law, Rules and Regulations
Sales and Use Tax Quarterly Newsletter
Sales and Use Tax Statistical Report

For a copy of these materials or any current North Dakota tax forms or booklets, write: North Dakota Tax Department, State Capitol, Bismarck, ND 58505.

The Tax Department also provides a statewide, toll-free telephone number (1-800-472-2110) which taxpayers may use to obtain assistance in filing taxes or to obtain answers to tax questions.